



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, 2011 and 2010
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, 2011 and 2010

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Report of Independent Auditors

The Board of Directors
Apple Industrial Development Corp.

We have audited the accompanying balance sheets of Apple Industrial Development Corp. (“Apple”), a component unit of the New York City Economic Development Corporation, as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of Apple’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Apple’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Apple’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Apple Industrial Development Corp. as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011 on our consideration of Apple’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress for the retiree health care plan, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

October 3, 2011

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

Management's Discussion and Analysis

June 30, 2011 and 2010

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, 2011 and 2010. Please read it in conjunction with the financial statements and accompanying notes.

2011 Financial Highlights

- Cash and investments increased \$7.1 million (or 43%)
- Tenant receivables, net of allowance increased \$3.3 million (or 16%)
- Accounts payable and accrued expenses increased \$1.7 million (or 50%)
- Due to New York City Economic Development Corporation increased \$4.9 million (or 59%)
- Deferred revenues increased \$4.0 million (or 38%)
- Property rentals increased \$13.4 million (or 14%)
- Other income decreased \$1.3 million (or 15%)
- Operating expenses increased \$14.9 million (or 25%)
- Operating income decreased \$2.9 million (or 6%)
- Payments to New York City Economic Development Corporation decreased \$2.8 million (or 5%)

Overview of the Financial Statements

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

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

Financial Analysis of the Corporation

Net Assets

The following table summarizes Apple's financial position at June 30, 2011, 2010 and 2009 (dollars in thousands) and the percentage changes between June 30, 2011 and 2010:

| | 2011 | 2010 | 2009 | % Change 2011 – 2010 |
|----------------------------|------------------|------------------|------------------|-------------------------|
| Current and other assets | \$ 48,017 | \$ 37,504 | \$ 35,794 | 28% |
| Capital assets | 933 | 83 | 64 | 1,024% |
| Total assets | <u>\$ 48,950</u> | <u>\$ 37,587</u> | <u>\$ 35,858</u> | 30% |
| Current liabilities | \$ 32,772 | \$ 22,297 | \$ 21,996 | 47% |
| Non-current liabilities | 5,813 | 6,258 | 6,232 | (7%) |
| Total liabilities | <u>\$ 38,585</u> | <u>\$ 28,555</u> | <u>\$ 28,228</u> | 35% |
| Net assets: | | | | |
| Restricted | \$ 9,380 | \$ 8,896 | \$ 7,514 | 5% |
| Unrestricted | 52 | 53 | 52 | (2%) |
| Invested in capital assets | 933 | 83 | 64 | 1,024% |
| Total net assets | <u>\$ 10,365</u> | <u>\$ 9,032</u> | <u>\$ 7,630</u> | 15% |

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

Total liabilities during fiscal year 2011 increased by \$10.0 million or 35%. This increase was the result of higher deferred revenues of \$4.0 million or 38%, an increase in the due to EDC of \$4.9 million or 59% and higher accrued expenses of \$1.7 million or 50%. These changes resulted from the increased reimbursable contracted personnel services due to EDC in the amount of

\$12.6 million offset by the increased receipts related to the Manhattan Cruise Terminal and the additional transfers to EDC totaling \$7.4 million. In addition, the increase in deferred revenue is due to prepayments of rent.

Apple's net assets as of June 30, 2011 increased by \$1.3 million or 15% as a result of current year earnings of \$50.2 million offset by payments to EDC of \$48.9 million.

During fiscal year 2010, total assets increased approximately \$1.7 million or 5%. In June 2010, the Corporation billed additional rent at the Manhattan Cruise Terminal and this is the primary reason for the increase in tenant receivables of \$3.6 million. The additional rent was due to a one-time penalty charge for not meeting the minimum passenger requirement.

Operating Activities

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

The following table summarizes Apple's change in net assets for the fiscal years ended June 30, 2011, 2010 and 2009 (dollars in thousands) and the percentage changes between fiscal years 2011 and 2010:

| | 2011 | 2010 | 2009 | % Change 2011 – 2010 |
|-------------------------------|------------------|-------------|-------------|---------------------------------|
| Operating revenues: | | | | |
| Property rentals | \$ 109,770 | \$ 96,391 | \$ 110,394 | 14% |
| Tenant reimbursements | 6,852 | 6,896 | 8,458 | (1%) |
| Fees and other income | 7,754 | 9,112 | 4,041 | (15%) |
| Total operating revenues | 124,376 | 112,399 | 122,893 | 11% |
| Operating expenses: | | | | |
| Property related expenses | 37,756 | 34,750 | 38,313 | 10% |
| Personnel services | 1,327 | 1,298 | 1,618 | 2% |
| Contracted personnel services | 34,337 | 22,190 | 20,962 | 53% |
| Other expenses | 791 | 1,060 | 1,613 | (25%) |
| Total operating expenses | 74,211 | 59,298 | 62,506 | 25% |
| Operating income | 50,165 | 53,101 | 60,387 | (6%) |
| Non-operating revenue: | | | | |
| Interest income | 69 | 31 | 69 | 123% |
| Income before transfers | 50,234 | 53,132 | 60,456 | (6%) |
| Payments to EDC | (48,901) | (51,730) | (59,854) | (6%) |
| Change in net assets | 1,333 | 1,402 | 602 | (5%) |
| Beginning net assets | 9,032 | 7,630 | 7,028 | 18% |
| Ending net assets | \$ 10,365 | \$ 9,032 | \$ 7,630 | 15% |

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

Total operating expenses during the current year increased by \$14.9 million or 25% primarily stemming from a \$12.7 million increase in the contracted personnel service expenses reimbursable to EDC. In addition, electric and waste removal expenses at the Brooklyn Army Terminal increased \$726,000 and \$349,000, respectively. Lastly, professional fees for facility management increased \$784,000 for various Maritime properties.

During the preceding period ended on June 30, 2010, total operating revenues decreased by \$10.5 million as a result of a \$9.8 million reduction in the amount of additional rent from the United Nations Development Corporation. The other income increased by \$5.1 million due to Forest City Bridge Street Association's Building B reimbursement for \$5.9 million. Total operating expenses also decreased by \$3.2 million due to a \$3.6 decrease in property related expenses stemming from decreased electric expense, as well as decreased facilities management expenses.

Contacting Apple's Financial Management

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

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

Balance Sheets

| | June 30 | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Assets | | |
| Current assets: | | |
| Cash (<i>Notes 2 and 6</i>) | \$ 3,181,334 | \$ 1,547,063 |
| Investments (<i>Notes 2 and 6</i>) | 52,195 | 52,501 |
| Tenant receivables, net of allowance for uncollectible amounts of \$11,789,989 and \$11,564,075, respectively | 24,374,879 | 21,033,958 |
| Prepaid expenses and other current assets | 331,812 | 246,324 |
| Total current assets | 27,940,220 | 22,879,846 |
| Non-current assets: | | |
| Cash – restricted (<i>Notes 2 and 6</i>) | 19,977,228 | 7,645,961 |
| Investments – restricted | 99,779 | 6,978,032 |
| Capital assets, net | 932,854 | 82,797 |
| Total non-current assets | 21,009,861 | 14,706,790 |
| Total assets | \$ 48,950,081 | \$ 37,586,636 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 4,967,200 | \$ 3,311,857 |
| Due to New York City Economic Development Corporation (<i>Note 3</i>) | 13,284,120 | 8,379,096 |
| Deferred revenues | 14,340,364 | 10,373,184 |
| Other liabilities | 180,402 | 233,077 |
| Total current liabilities | 32,772,086 | 22,297,214 |
| Non-current liabilities: | | |
| Tenant security deposits | 4,699,343 | 5,229,633 |
| Obligation for Other Postemployment Benefits | 1,113,415 | 1,028,000 |
| Total non-current liabilities | 5,812,758 | 6,257,633 |
| Total liabilities | 38,584,844 | 28,554,847 |
| Net assets: | | |
| Restricted under lease agreements | 9,380,188 | 8,896,491 |
| Unrestricted | 52,195 | 52,501 |
| Invested in capital assets | 932,854 | 82,797 |
| Total net assets (<i>Note 11</i>) | 10,365,237 | 9,031,789 |
| Total liabilities and net assets | \$ 48,950,081 | \$ 37,586,636 |

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Fund Net Assets

| | Year Ended June 30 | |
|--|---------------------------|---------------|
| | 2011 | 2010 |
| Operating revenues: | | |
| Property rentals | \$ 109,770,348 | \$ 96,390,435 |
| Tenant reimbursements | 6,852,237 | 6,896,435 |
| Fee income | 105,625 | 140,956 |
| Other income | 7,648,222 | 8,971,018 |
| Total operating revenues | 124,376,432 | 112,398,844 |
| Operating expenses: | | |
| Property rentals and related operating expenses | 37,756,066 | 34,749,772 |
| Personnel services | 1,327,307 | 1,298,082 |
| Contracted personnel services | 34,336,465 | 22,190,461 |
| Provision for uncollectible rents | 790,941 | 1,059,641 |
| Total operating expenses | 74,210,779 | 59,297,956 |
| Operating income | 50,165,653 | 53,100,888 |
| Non-operating revenues: | | |
| Interest income | 68,716 | 30,996 |
| Payments to New York City Economic Development Corporation | (48,900,921) | (51,729,988) |
| Change in net assets | 1,333,448 | 1,401,896 |
| Total net assets, beginning of year | 9,031,789 | 7,629,893 |
| Total net assets, end of year | \$ 10,365,237 | \$ 9,031,789 |

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 | |
|---|---------------------------|---------------|
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Property rentals, tenant reimbursements and fee income | \$ 95,295,036 | \$ 81,596,513 |
| Other income | 6,892,722 | 8,383,918 |
| Property rentals and related operating expenses | (25,057,302) | (26,083,300) |
| Personnel services | (1,181,988) | (1,102,502) |
| Net cash provided by operating activities | 75,948,468 | 62,794,629 |
| Cash flows from investing activities | | |
| Sale of investments | 6,878,253 | 13,935,000 |
| Purchase of investments | – | (14,054,073) |
| Interest income | 69,022 | 30,687 |
| Net cash provided by (used in) investing activities | 6,947,275 | (88,386) |
| Cash flows from capital financing activities | | |
| Purchase of capital assets | (930,205) | (43,582) |
| Net cash used in capital financing activities | (930,205) | (43,582) |
| Cash flows from non-capital financing activities | | |
| Payment to New York City Economic Development Corporation | (68,000,000) | (64,800,000) |
| Net cash used in non-capital financing activities | (68,000,000) | (64,800,000) |
| Net increase (decrease) in cash | 13,965,538 | (2,137,339) |
| Cash at beginning of year | 9,193,024 | 11,330,363 |
| Cash at end of year | \$ 23,158,562 | \$ 9,193,024 |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 50,165,653 | \$ 53,100,888 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | 80,148 | 24,703 |
| Provision for uncollectible rent | 790,941 | 1,059,641 |
| Net cash provided by nonoperating activities | 19,099,079 | 13,070,011 |
| Changes in operating assets and liabilities: | | |
| Tenant receivables | (4,131,862) | (4,670,832) |
| Prepaid expenses and other current assets | (85,488) | (116,851) |
| Tenant security deposits | (530,290) | (125,331) |
| Obligation for OPEB | 85,415 | 151,000 |
| Accounts payable and accrued expenses | 1,655,343 | (501,221) |
| Due to New York City Economic Development Corporation | 4,905,024 | 1,070,471 |
| Deferred revenue and other liabilities | 3,914,505 | (267,850) |
| Net cash provided by operating activities | \$ 75,948,468 | \$ 62,794,629 |

See accompanying notes.

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

Notes to Financial Statements

June 30, 2011

1. Background and Organization

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

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

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

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

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

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 EDC and The City, the net revenue from three of the properties is retained by the fund for property operating and capital expenses or for expenses of projects in the area. The net assets retained as of June 30, 2011 and 2010 were \$9,813,042 and \$8,479,288, respectively. Net revenues exclude depreciation expenses. Any net revenues from the other properties are payable to EDC pursuant to the Subcontract.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

Apple is a self-supporting entity and follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

In its accounting and financial reporting, the Corporation follows the pronouncements of the Governmental Accounting Standards Board (“GASB”). In addition, Apple follows only the pronouncements of all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Recent and Upcoming Accounting Pronouncements

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus* (“GASB No. 59”). GASB No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Corporation adopted GASB No. 59 for its 2011 financial statements. The implementation of GASB No. 59 did not have a significant impact on the Corporation.

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

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (“GASB No. 61”). GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, GASB No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. GASB No. 61 also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances and clarifies the reporting of equity interests in legally separate organizations. The provisions of GASB No. 61 are effective for financial statements for periods beginning after June 15, 2012. The Corporation has not completed the process of evaluating the impact of GASB No. 61 on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB No. 62”). This Standard will improve financial reporting by incorporating into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the FASB’s and the American Institute of Certified Public Accountants’ (“AICPA”) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB No. 62 will supersede Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The requirements of GASB No. 62 are effective for financial statements for periods beginning after December 15, 2011. The Corporation has not completed the process of evaluating the impact of GASB No. 62 on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB No. 63”). GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined

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)

those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Corporation has not completed the process of evaluating the impact of GASB No. 63 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.

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.

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)

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.

Deferred Revenue

Deferred 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 (the "Code").

Reclassifications

Certain prior year amounts shown in the accompanying financial statements have been reclassified to conform to current year presentation.

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

Notes to Financial Statements (continued)

3. Payments to EDC

Under the Subcontract, Apple is responsible for the collection of rent from tenants that occupy space in various markets, intermodal and waterfront properties, the Brooklyn Army Terminal (“BAT”), and other properties. After netting the direct costs of the Contract Services and other operating expenses, aggregating \$74,210,779 and \$59,297,956 and withholding reserves per contractual agreement of \$1,333,448 and \$1,401,896 for the years ended June 30, 2011 and 2010, respectively, the amount due and payable to EDC amounted to \$48,900,921 and \$51,729,988 for fiscal years 2011 and 2010, respectively. The unpaid portion of amounts due to EDC at June 30, 2011 and 2010 was \$13,284,120 and \$8,379,096, respectively.

4. Properties Managed by Apple on Behalf of EDC

The future minimum rental income as of June 30, 2011, payable by the tenants under the leases and subleases managed by Apple on behalf of EDC, all of which are accounted for as operating leases, are as follows (dollars in thousands):

| Fiscal Year | Minimum Rental Income from BAT Tenants | Minimum Rental Income from Commercial Tenants | Minimum Rental Income from Transportation/ Commerce Tenants | Minimum Rental Income from Other Tenants | Total |
|--------------|---|---|--|---|---------------------|
| 2012 | \$ 15,469 | \$ 10,131 | \$ 39,897 | \$ 943 | \$ 66,440 |
| 2013 | 13,361 | 9,898 | 33,552 | 846 | 57,657 |
| 2014 | 11,614 | 9,797 | 31,615 | 775 | 53,801 |
| 2015 | 10,279 | 9,566 | 29,723 | 478 | 50,046 |
| 2016 | 7,868 | 8,711 | 27,181 | 123 | 43,883 |
| 2017 – 2021 | 12,289 | 37,844 | 125,065 | – | 175,198 |
| 2022 – 2026 | 4,210 | 32,148 | 100,833 | – | 137,191 |
| 2027 – 2031 | – | 31,775 | 65,540 | – | 97,315 |
| 2032 – 2036 | – | 31,225 | 47,813 | – | 79,038 |
| 2037 – 2041 | – | 30,410 | 22,913 | – | 53,323 |
| Thereafter | – | 253,423 | 37,628 | – | 291,051 |
| Total | \$ 75,090 | \$ 464,928 | \$ 561,760 | \$ 3,165 | \$ 1,104,943 |

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

Notes to Financial Statements (continued)

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

The thereafter category includes 22 leases with expiration dates between July 1, 2041 and September 13, 2105.

5. Related Party Transactions

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

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

EDC personnel provide accounting and administrative functions to Apple in connection with Apple's administration of the Contract Services. Costs for such services are included in Contracted Personnel Services on the accompanying statements of revenues, expenses and changes in fund net assets and amounted to \$34,336,465 and \$22,190,461 in the years ended June 30, 2011 and 2010, respectively.

6. Cash and Investments

Cash

The bank balance of Apple's deposits was \$23,900,625 as of June 30, 2011. Of the bank balance, \$2,608,020 was covered by federal depository insurance, and \$12,240,138 was collateralized with securities held by the pledging financial institutions' trust department in Apple's name. The remaining amounts were uncollateralized at June 30, 2011.

Investments

Investments, which have maturities of less than one year at June 30, 2011, consisted of certificates of deposit in the amount of \$151,974. At June 30, 2010, Apple had investments in Treasury Bills and certificates of deposit in the amount of \$6,878,253 and \$152,280, respectively.

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

Notes to Financial Statements (continued)

6. Cash and Investments (continued)

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

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

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

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, 2011, 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, 2011, the Corporation had 65% of its certificates of deposit issued by Carver Federal Savings Bank and 35% by JPMorgan Chase. At June 30, 2010, the Corporation had 97.8% of its investments in Treasury bills.

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

Notes to Financial Statements (continued)

7. Pension Plan

Apple maintains a defined contribution pension plan, which covers substantially all employees with two or more years of service. The pension plan provides for a single contribution rate by Apple of 12% of the employees' Eligible Wages, as defined in the Code. Pension expense for the fiscal years ended June 30, 2011 and 2010 amounted to \$81,251 and \$90,729, respectively, and is included in personnel services in the accompanying statements of revenues, expenses and changes in fund net assets.

8. 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, 2011 and 2010 who is receiving benefits under the Low version of the plan. Employer contributions are made on a pay as you go basis.

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

Notes to Financial Statements (continued)

8. Postemployment Benefits Other than Pensions (continued)

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):

| | 2011 | 2010 |
|---|----------|----------|
| Annual required contribution | \$ 181 | \$ 164 |
| ARC adjustment | (127) | (43) |
| Interest on net OPEB obligation | 41 | 35 |
| Annual OPEB cost | 95 | 156 |
| Contributions made | (10) | (5) |
| Increase in net OPEB obligation | 85 | 151 |
| Net OPEB obligation – beginning of year | 1,028 | 877 |
| Net OPEB obligation – end of year | \$ 1,113 | \$ 1,028 |

Apple's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011, 2010 and 2009 were as follows (dollars in thousands):

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------------|--|------------------------|
| 06/30/11 | \$ 95 | 11% | \$ 1,113 |
| 06/30/10 | 156 | 3% | 1,028 |
| 06/30/09 | 151 | –% | 877 |

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

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

Notes to Financial Statements (continued)

8. 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. Apple's June 30, 2011 OPEB obligation does not reflect any estimated or actual adjustments resulting from National Health Care Reform.

For the June 30, 2010 actuarial valuation, the project unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 9% and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over a 30 year closed period on a level dollar basis. The remaining amortization period at June 30, 2011 was 24 years.

9. Commitments and Contingencies

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

10. 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)

11. Net Assets

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

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

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

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

The changes in net assets during fiscal years 2011 and 2010 are as follows:

| | Restricted | Unrestricted | Invested in Capital Assets | Total |
|---------------------------|---------------------|---------------------|---|----------------------|
| Net assets, June 30, 2009 | \$ 7,513,782 | \$ 52,193 | \$ 63,918 | \$ 7,629,893 |
| Income before transfers | 29,272,991 | 23,858,893 | - | 53,131,884 |
| Additions | (43,582) | - | 43,582 | - |
| Retirements/depreciation | 24,703 | - | (24,703) | - |
| Transfers | (27,871,403) | (23,858,585) | - | (51,729,988) |
| Net assets, June 30, 2010 | 8,896,491 | 52,501 | 82,797 | 9,031,789 |
| Income before transfers | 28,824,081 | 21,410,288 | - | 50,234,369 |
| Additions | (930,205) | - | 930,205 | - |
| Retirements/depreciation | 80,148 | - | (80,148) | - |
| Transfers | (27,490,327) | (21,410,594) | - | (48,900,921) |
| Net assets, June 30, 2011 | \$ 9,380,188 | \$ 52,195 | \$ 932,854 | \$ 10,365,237 |

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 |
|-----------------------------|--|--|---------------------------------|---------------------------|---------------------------|---|
| 6-30-2010 (1) | \$ — | \$ 1,788 | \$ 1,788 | 0% | \$ 823 | 217.3% |
| 6-30-2008 | \$ — | \$ 2,455 | \$ 2,455 | 0% | \$ 1,140 | 215.4% |
| 6-30-2005 | \$ — | \$ 1,955 | \$ 1,955 | 0% | \$ 1,034 | 189.2% |

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

Supplementary Information

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

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

| | Commercial Leases | Brooklyn Army Terminal | Maritime | Other Properties | 42nd Street | Year Ended June 30 | |
|--|----------------------|---------------------------|---------------|---------------------|-------------|--------------------|---------------|
| | | | | | | 2011 | 2010 |
| Operating revenues: | | | | | | | |
| Property rentals | \$ 23,806,062 | \$ 17,447,036 | \$ 65,624,201 | \$ 2,893,049 | \$ – | \$ 109,770,348 | \$ 96,390,435 |
| Tenant reimbursements | 209,716 | 4,190,078 | 2,449,898 | 2,545 | – | 6,852,237 | 6,896,435 |
| Fee income | 21,750 | 21,308 | 55,455 | 7,112 | – | 105,625 | 140,956 |
| Other income | 4,233,534 | 106,537 | 3,232,923 | 75,228 | – | 7,648,222 | 8,971,018 |
| Total operating revenues | 28,271,062 | 21,764,959 | 71,362,477 | 2,977,934 | – | 124,376,432 | 112,398,844 |
| Operating expenses: | | | | | | | |
| Property rentals and related operating expenses | 4,612,626 | 9,494,231 | 21,356,593 | 1,689,879 | 602,737 | 37,756,066 | 34,749,772 |
| Personnel services | 165,412 | 750,729 | 411,166 | – | – | 1,327,307 | 1,298,082 |
| Contracted personnel services | 1,779,857 | 56,200 | 32,500,408 | – | – | 34,336,465 | 22,190,461 |
| Provision for uncollectible rents | 356,060 | 37,234 | 383,683 | 13,964 | – | 790,941 | 1,059,641 |
| Total operating expenses | 6,913,955 | 10,338,394 | 54,651,850 | 1,703,843 | 602,737 | 74,210,779 | 59,297,956 |
| Operating income (loss) | 21,357,107 | 11,426,565 | 16,710,627 | 1,274,091 | (602,737) | 50,165,653 | 53,100,888 |
| Non-operating revenues: | | | | | | | |
| Interest income | 53,898 | – | 7,373 | 7,403 | 42 | 68,716 | 30,996 |
| Total non-operating revenues | 53,898 | – | 7,373 | 7,403 | 42 | 68,716 | 30,996 |
| Payments to New York City Economic Development Corporation | (21,411,311) | (11,426,565) | (16,718,000) | 52,260 | 602,695 | (48,900,921) | (51,729,988) |
| Change in net assets | (306) | – | – | 1,333,754 | – | 1,333,448 | 1,401,896 |
| Total net assets, beginning of year | 52,501 | 500,000 | – | 8,479,288 | – | 9,031,789 | 7,629,893 |
| Total net assets, end of year | \$ 52,195 | \$ 500,000 | \$ – | \$ 9,813,042 | \$ – | \$ 10,365,237 | \$ 9,031,789 |

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

The Board of Directors
Apple Industrial Development Corp.

We have audited the balance sheet of Apple Industrial Development Corp. (“Apple”) a component unit of New York City Economic Development Corporation, as of June 30, 2011 and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended, and have issued our report thereon dated October 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Apple’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Apple’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Apple’s internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as Finding 2011-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

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*.

Apple's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Apple's response and accordingly, we express no opinion on it.

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

Ernst + Young LLP

October 3, 2011

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

Schedule of Findings and Responses

Year Ended June 30, 2011

Financial Statement Finding

Finding 2011-01 Policies and Procedures

Criteria

A comprehensive policies and procedures manual serves certain basic organizational needs, especially in situations where significant turnover is experienced.

These needs include:

Operational needs – Policies and procedures ensure that fundamental organizational processes are performed in a consistent way that meets the organization’s needs.

Risk management – Established policies and procedures are an important control activity in helping an organization manage risk.

Continuous improvement – Documented procedures improve processes as they help to build important internal communication practices.

Compliance – Well defined and documented processes and procedures along with the associated records that demonstrate process capability can foster effective internal control system compliance with regulations and standards.

Condition:

We noted that the Accounting Department does not maintain a comprehensive policies and procedures manual. Although the Department does have various written policies and procedures for handling the routine transactions that occur during the year, there is no all-inclusive manual to facilitate the timely recording of transactions, particularly for non-routine or unusual transactions.

Effect:

Due to significant turnover experienced by the Department during the year, certain significant transactions were not recorded on a timely basis due to a lack of familiarity with appropriate procedures for handling large or unusual transactions.

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

Schedule of Findings and Responses

Year Ended June 30, 2011

Financial Statement Finding

Finding 2011-01 Policies and Procedures (continued)

Cause:

Apple's current policies and procedures manual is outdated and focuses primarily on routine transactions. Policies and procedures for handling most non-routine transactions are not currently addressed.

Recommendation:

We recommend that management develop a comprehensive policies and procedures manual to assist the Accounting Department in fulfilling its corporate responsibilities in a timely manner.

View of Responsible Officials and Planned Corrective Action:

Apple agrees with the audit recommendation. Apple acknowledges the importance of documented policies and procedures in demonstrating sound internal controls. Apple's accounting department has an extensive policies and procedures manual, but we agree it has not been contemporized for current and non-standard procedures.

Management is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures manual for all financial reporting matters. This will include comprehensive instruction on accounting procedures under the current accounting system, as well as updates to all non-routine transactions. Such updates will concentrate on specific types of transactions unique to NYCEDC and its affiliated entities.

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