



March 31, 2017

The Honorable Andrew M. Cuomo
Governor of the State of New York
State Capitol Building
Albany, NY 12224

**Re: Annual Report of the United Nations Development Corporation
For Fiscal Year 2016**

Dear Governor Cuomo:

I am pleased to present to you the annual report of the United Nations Development Corporation (the “Corporation”) for its fiscal year ended December 31, 2016.

Background

The Corporation is a public benefit corporation created by Chapter 345 of the Laws of 1968, as amended. The Corporation was formed to undertake coordinated development of offices and other facilities for the United Nations (the “UN”), missions to the UN, and UN-related programs and activities (together, the “UN Community”) within the United Nations Development District (the “District”) near the UN headquarters in New York City (the “City”), and to assist the UN Community in meeting its current and future real estate needs. In addition, the Corporation provides real estate advice and services to the State and City of New York, the United States and the UN. The Corporation enables the people of the State and City of New York to meet their responsibilities as hosts to the UN, and to provide suitable facilities for the UN Community near the UN headquarters.

The Corporation is governed by a board of directors (the “Board”) consisting of fifteen members who serve without compensation. Eight members are appointed by the Governor, five are appointed by the Mayor of the City of New York (the “Mayor”) after consultation with the Secretary-General of the UN and the United States Ambassador to the UN, and two serve *ex officio* by virtue of their offices as Chairman of the City Planning Commission and Commissioner of the City Department of Housing Preservation and Development. The Mayor designates one of the members appointed by him as Chairman of the Board. The Chairman of the Board appoints a President and Chief Executive Officer of the Corporation after consultation with the Mayor. The Board at its annual meeting elects the remaining officers of the Corporation in accordance with the Corporation’s by-laws. A listing of the Corporation’s current Board members and officers is attached. The Corporation has no subsidiaries.

Development Projects

The First Phase Project (One UN Plaza) involved the acquisition of property by the City at the Corporation's expense, and construction of a mixed-use hotel and office building on the northwest corner of East 44th Street and First Avenue. One UN Plaza was completed in 1975. In 1997, as part of privatization initiatives of the Corporation, the City and the State, the hotel portion of One UN Plaza was sold to a private hotel operator (the "Hotel Operator") and One UN Plaza was converted into a condominium. As part of these privatization initiatives, two small properties, located at 765 and 763 First Avenue, were sold in 1999 and 2000, respectively.

The Second Phase Project (Two UN Plaza) involved the construction of a mixed-use hotel and office building located at East 44th Street between First and Second Avenues adjacent to One UN Plaza. Two UN Plaza was completed in 1983. As part of the privatization initiatives described above, in 1997 the hotel portion of Two UN Plaza was leased to the Hotel Operator under a long-term prepaid net lease.

The Third Phase Project (Three UN Plaza) involved the construction of a mixed-use office and apartment building on the south side of East 44th Street between First and Second Avenues, across from One and Two UN Plaza. Three UN Plaza was completed in 1987. The residential apartment space at Three UN Plaza was converted for use as office space in 2010.

The 633 Third Avenue Project involved the purchase by the Corporation of Units 11-27 of the 633 Third Avenue Condominium, a commercial office condominium on the east side of Third Avenue between East 40th and East 41st Streets. In 1999, the Corporation sold its interests in the 633 Third Avenue Project.

The Corporation's current interests include: (1) at One UN Plaza, 358,000 square feet of office space and 5,000 square feet of retail space; (2) at Two UN Plaza, 374,000 square feet of office space, 2,500 square feet of retail space, 11,000 square feet utilized as a pre-school, and below grade storage space; and (3) at Three UN Plaza, 205,000 square feet of office space, below grade storage space and a public plaza.

The Corporation operates the non-hotel portions of One and Two UN Plaza, and all of Three UN Plaza. As of December 31, 2016, approximately 95% of the office space in One and Two UN Plaza was leased to the UN Community. All of Three UN Plaza is leased to the United Nations Children's Fund (UNICEF) as its world headquarters.

State legislation enacted in 2011 and a Memorandum of Understanding signed by the Mayor and State legislative leaders authorized the Corporation to finance and construct a new build-to-suit office building for exclusive UN use along First Avenue and across 42nd Street from the UN Headquarters. The Corporation previously proposed to the UN the financing and

construction by the Corporation of that new building. The purpose of the new building was to enable the UN to consolidate in a single location office space leased by the UN at multiple locations on the east side of Manhattan.

The UN decided in late 2015 not to proceed with the new building at that time. This decision meant that the financing and construction of the new building may not proceed for a number of years or may not proceed at any time.

Operations

Under a lease with the City for the First Phase Project, the Corporation pays the City base rent for the portion of One UN Plaza it operates that is not occupied by the UN, missions to the UN, or UN-related programs and activities.

Under a lease with the City for the Second Phase Project, the Corporation pays the City base rent for the portion of Two UN Plaza that is not occupied by the UN, missions to the UN, or UN-related programs and activities, and not devoted to community facility use. In addition, the Corporation pays additional rent from surplus funds in the manner described in the lease. The land on which Two UN Plaza is constructed is owned by a private entity and leased to the Corporation. The Corporation pays the City full real estate taxes on this land.

Under a lease with the City for the Third Phase Project, the Corporation pays the City a fixed rental amount with respect to Three UN Plaza.

The Corporation's payments to the City with respect to the 2016 fiscal year totaled \$3,185,629, consisting of \$1,609,301 in base rent, and \$1,576,328 in real estate taxes.

Bonds Outstanding

As of December 31, 2016, the Corporation had the following bonds outstanding:

1. 2009 Refunding Bonds, Series A (the "Bonds of 2009"), in principal amount of \$74,530,000 (issued in aggregate principal amount of \$111,475,000). The Bonds of 2009 are collateralized by a pledge of the net revenues from the First, Second and Third Phase Projects (collectively, the "Projects"), and all funds and accounts held by the trustee under the Corporation's bond indenture. During 2016, the Projects produced net revenues after payment of operating expenses with coverage of 2.53 times debt service requirements, which significantly exceeded the required coverage of 1.25 times debt service under the bond indenture. The Corporation has reviewed estimated and actual revenues and operating expenses of the Projects and expects that net revenues from operations of the Projects will continue to exceed the amounts required for debt service on the Bonds of 2009.

The Honorable Andrew M. Cuomo
Governor of the State of New York
March 31, 2017
Page 4

2. A 50-year \$287,500 Special Obligation Bond of 1978.
3. A 45-year \$1,250,000 Special Obligation Bond of 1980.

Financial Report

The Corporation's financial statements for the year ended December 31, 2016 were audited by Marks Paneth LLP and approved by the Board at its annual meeting on March 28, 2017. A copy of the audited financial statements is attached to this report.

Respectfully submitted,



Robert Cole
Executive Vice President

Attachments:

1. List of current directors and officers
2. Audited financial statements for the year ended December 31, 2016

**UNITED NATIONS DEVELOPMENT CORPORATION
DIRECTORS AND OFFICERS**

DIRECTORS:

| <u>Name</u> | <u>Original Appointment Date</u> | <u>Occupation/Affiliation</u> |
|-------------------------------|--------------------------------------|--|
| Mayor's Appointees: | | |
| George Klein, Chairman | 11/1971 | Chairman & CEO, Park Tower Group, Ltd. |
| Penny Abeywardena | 03/2015 | Commissioner, Mayor's Office for International Affairs |
| Christine Falvo | 06/2016 | Chief Operating Officer, Rubenstein |
| Jessica Healy | 06/2016 | |
| Joel M. Silverman | 03/2012 | Joel M. Silverman and Associates, LLC |
| Ex-Officio: | | |
| Marisa Lago | 02/2017 | Chair, New York City Planning Commission |
| Maria Torres-Springer | 02/2017 | Commissioner, New York City Department of Housing Preservation & Development |
| Governor's Appointees: | | |
| Robert Abrams, Esq. | 08/2008 | Partner, Stroock & Stroock & Lavan LLP |
| Jan Burman | 10/2013 | The Engel Burman Group |
| Jonathan D. Farkas | 10/2011 | |
| Thomas S. Gulotta, Esq. | 08/2005 | Partner, Albanese & Albanese LLP |
| Amabel B. James | 12/2014 | James Family Foundation |
| Samuel Natapoff | 12/2010 | President, Empire Global Ventures LLC |
| Joseph Rutigliano | 09/2015 | Director, Tunnel Hill Partners |
| Andy K. Shenoy | 12/2010 | President, Mitra Enterprises, Inc.; Executive Director, Trivision Health Center |

**UNITED NATIONS DEVELOPMENT CORPORATION
DIRECTORS AND OFFICERS**

OFFICERS:

Robert Cole, Senior Vice President and General Counsel; Secretary. Mr. Cole has been associated with the Corporation since 2004.

Kenneth Coopersmith, Vice President. Mr. Coopersmith is a Registered Architect and has been associated with the Corporation since 2008.

Jorge Ortiz, Controller; Treasurer. Mr. Ortiz has been associated with the Corporation since 1988.

Loida Diaz-de Jesus, Vice President. Ms. Diaz has been associated with the Corporation since 2005.

United Nations Development Corporation

Financial Statements (Together with Independent Auditors' Report)

For the Years Ended December 31, 2016 and 2015

and Supplemental Schedule

For the Year Ended December 31, 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

United Nations Development Corporation

Index of Financial Statements and Supplemental Schedule

| | Pages |
|--|-------|
| Independent Auditors' Report | 1-2 |
| Management's Discussion and Analysis (Unaudited) | 3-6 |
| Financial Statements as of and for the Years Ended December 31, 2016 and 2015 | |
| Statements of Net Position | 7 |
| Statements of Revenues, Expenses and Changes in Net Position | 8 |
| Statements of Cash Flows | 9 |
| Notes to Financial Statements | 10-21 |
| Supplemental Schedule | |
| Supplemental Schedule of Phases I, II, and III Net Revenues in Excess of Debt Service Requirements for the Year Ended December 31, 2016 | 22 |
| Notes to Supplemental Schedule | 23 |

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M A R K S P A N E T H
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
United Nations Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the United Nations Development Corporation (the "Corporation"), a public benefit corporation of the State of New York, as of and for the years ended December 31, 2016 and 2015, which collectively comprise the Corporation's financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 of America. 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 auditors' 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 United Nations Development Corporation as of December 31, 2016 and 2015, and the related changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 of America, 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 audits 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information shown on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information 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. The information has been subjected to the auditing procedures applied in the audits 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Marks Paneth LLP

New York, NY
March 31, 2017

United Nations Development Corporation

Management's Discussion and Analysis (Unaudited)

Overview of the Financial Statements

The following is an overview of the financial performance of the United Nations Development Corporation (the "Corporation") for the fiscal years ended December 31, 2016 and 2015. The Corporation's financial statements consist of three parts: (1) management's discussion and analysis, (2) the basic financial statements and (3) the notes to the financial statements.

The basic financial statements, which include the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows, are prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Summary Statement of Net Position

The summary statement of net position presents the financial position of the Corporation. The net position is the difference between (a) total assets and (b) total liabilities plus deferred inflows of resources. A summarized comparison of the Corporation's assets, liabilities, deferred inflows of resources, and net position at December 31, 2016, 2015 and 2014 follows:

| Assets: | 2016 | 2015 | 2014 |
|--|-----------------------|-----------------------|-----------------------|
| Current assets | \$ 21,070,622 | \$ 23,316,754 | \$ 18,362,701 |
| Restricted assets | 62,746,869 | 55,511,411 | 52,394,384 |
| Property and equipment, net | 49,581,888 | 44,065,960 | 61,464,358 |
| Other noncurrent assets | 29,437,284 | 30,860,786 | 32,064,131 |
| Total assets | \$ 162,836,663 | \$ 153,754,911 | \$ 164,285,574 |
| | | | |
| Liabilities: | | | |
| Total current liabilities | \$ 13,593,439 | \$ 12,105,968 | \$ 15,030,058 |
| Long-term obligations, net of current portion | 73,852,242 | 80,644,339 | 87,177,832 |
| Total liabilities | 87,445,681 | 92,750,307 | 102,207,890 |
| | | | |
| Deferred inflows of resources | | | |
| Unamortized gain on bond refunding | 1,182,741 | 1,424,701 | 1,685,117 |
| Total deferred inflows of resources | 1,182,741 | 1,424,701 | 1,685,117 |
| | | | |
| Net position | 74,208,241 | 59,579,903 | 60,392,567 |
| | | | |
| Total liabilities, deferred inflows of resources and net position | \$ 162,836,663 | \$ 153,754,911 | \$ 164,285,574 |

United Nations Development Corporation

Management's Discussion and Analysis (Unaudited)

2016 vs. 2015

At December 31, 2016, the Corporation had total assets of \$162.8 million, an increase of \$9.0 million from 2015. The increase in total assets is attributable to an increase of \$7.2 million in restricted assets and an increase of \$5.5 million in property and equipment, offset by a decrease of \$2.2 million in current assets and a decrease of \$1.5 million in other noncurrent assets. Restricted assets represent funds held in investment accounts as required by the indenture relating to the Corporation's 2009 Refunding Bonds, Series A (the "2009 Bonds"). The increase in restricted assets for 2016 primarily reflects additional deposits made in 2016 to pay for upcoming capital projects at the Corporation's properties. Other noncurrent assets for 2016 and 2015 include \$29.4 million and \$30.9 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2016 were \$13.6 million, an increase of \$1.5 million from 2015. The increase in current liabilities is due primarily to an increase of \$2.0 million in accounts payable and accrued expenses offset by a decrease of \$613,000 in security deposits payable and unearned revenues. Long-term obligations, net of current portion, were \$73.9 million at December 31, 2016, a decrease of \$6.7 million from 2015, primarily due to the repayment of principal amounts on the 2009 Bonds.

Deferred inflows of resources at December 31, 2016 were \$1.2 million, a decrease of \$242,000 from 2015, reflecting the current year amortization of the unamortized gain on bond refunding.

2015 vs. 2014

At December 31, 2015, the Corporation had total assets of \$153.8 million, a decrease of \$10.5 million from 2014. The decrease in total assets is attributable to an increase of \$5.0 million in current assets and an increase of \$3.1 million in restricted assets, offset by a decrease of \$17.4 million in property and equipment and a decrease of \$1.2 million in other noncurrent assets. The decrease in property and equipment is primarily attributable to a write-off of \$14.4 million in development-in-progress costs as described in Note 4. The increase in restricted assets for 2015 primarily reflects additional deposits made in 2015 to pay for upcoming capital projects at the Corporation's properties. Other noncurrent assets for 2015 and 2014 include \$30.9 million and \$32.1 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2015 were \$12.1 million, a decrease of \$2.9 million from 2014. The decrease in current liabilities is due primarily to a decrease of \$4.0 million in Additional City Rent for 2015 as compared to 2014, offset by an increase of \$348,000 in accounts payable and accrued expenses, and an increase of \$628,000 in security deposits payable and unearned revenues. Long-term obligations, net of current portion, were \$80.6 million at December 31, 2015, a decrease of \$6.5 million from 2014, primarily due to the repayment of principal amounts on the 2009 Bonds.

Deferred inflows of resources at December 31, 2015 were \$1.4 million, a decrease of \$260,000 from 2014, reflecting the current year amortization of the unamortized gain on bond refunding.

United Nations Development Corporation

Management's Discussion and Analysis (Unaudited)

Statements of Revenues, Expenses and Changes in Net Position

The following is a summary of the Corporation's revenues, expenses, and changes in net position for the years ended December 31, 2016, 2015 and 2014.

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | 2016 vs. 2015 (%) | 2015 vs. 2014 (%) |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total operating revenues | \$ 43,776,284 | \$ 43,452,119 | \$ 43,684,756 | 1% | -1% |
| Total operating expenses | <u>26,355,918</u> | <u>26,528,500</u> | <u>30,769,085</u> | -1% | -14% |
| Operating income | <u>17,420,366</u> | <u>16,923,619</u> | <u>12,915,671</u> | | |
| Nonoperating revenues (expenses): | | | | | |
| Interest income | 170,874 | 125,200 | 83,006 | 36% | 51% |
| Interest expense | (3,187,846) | (3,418,519) | (3,640,813) | -7% | -6% |
| Write-off of development-in-progress costs | - | (14,388,849) | - | 100% | -100% |
| Unrealized gain (loss) on restricted assets | <u>224,944</u> | <u>(54,115)</u> | <u>20,355</u> | 516% | -366% |
| Total nonoperating expenses | <u>(2,792,028)</u> | <u>(17,736,283)</u> | <u>(3,537,452)</u> | -84% | 401% |
| Change in net position | <u>14,628,338</u> | <u>(812,664)</u> | <u>9,378,219</u> | | |
| Net position, beginning of year | <u>59,579,903</u> | <u>60,392,567</u> | <u>51,014,348</u> | -1% | 18% |
| Net position, end of year | <u>\$ 74,208,241</u> | <u>\$ 59,579,903</u> | <u>\$ 60,392,567</u> | 25% | -1% |

Operating Revenues. Operating revenues for the years ended December 31, 2016, 2015 and 2014 totaled \$43.8 million, \$43.5 million and \$43.7 million, respectively. The increase in operating revenues for 2016 over 2015 was due primarily to an increase in operating expenses that were a pass-through to tenants under the leases. The decrease in operating revenues for 2015 as compared to 2014 was due primarily to a decrease in operating expenses in 2015 that were a pass-through to tenants in 2015 under the Corporation's leases.

The office space in One and Two UN Plaza is leased principally to the United Nations and foreign missions to the United Nations. UNICEF leases all of the space in Three UN Plaza for use as its world headquarters.

Operating Expenses. Operating expenses for the years ended December 31, 2016, 2015 and 2014 totaled \$26.4 million, \$26.5 million and \$30.8 million, respectively.

The decrease in operating expenses for 2015 as compared to 2014 primarily reflects a decrease of \$4.0 million in Additional City Rent payable for 2015.

United Nations Development Corporation

Management's Discussion and Analysis (Unaudited)

Nonoperating Expenses. Total nonoperating expenses for the years ended December 31, 2016, 2015 and 2014 were \$2.8 million, \$17.7 million and \$3.5 million, respectively. Total nonoperating expenses for 2015 include the write-off of all development-in-progress costs of \$14.4 million related to the UN Consolidation Building, as described in Note 4.

Interest income in 2016 was \$170,874, an increase of \$45,674 over 2015, reflecting an increase in investment balances and higher interest rates paid in 2016. Interest income in 2015 was \$125,200, an increase of \$42,194 over 2014, reflecting an increase in investment balances and higher interest rates paid in 2015.

Change in Net Position. The total net position at December 31, 2016, 2015 and 2014 was \$74.2 million, \$59.6 million and \$60.4 million, respectively.

The Corporation issued the 2009 Bonds on October 29, 2009 at a face amount of \$111,475,000. The 2009 Bonds have consistently been rated A1 by Moody's and A+ by Fitch from and since the date of issuance.

The 2009 Bonds, which pay semiannual interest on January 1 and July 1 at various rates, are subject to mandatory annual redemption of stated principal amounts on July 1. The balance of the 2009 Bonds as of December 31, 2016 was \$74,530,000.

United Nations Development Corporation

Statements of Net Position

| | As of December 31, | |
|---|-----------------------|-----------------------|
| | <u>2016</u> | <u>2015</u> |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ 14,578,015 | \$ 15,829,952 |
| Accounts receivable, less allowance for doubtful accounts of \$3,700 in 2016 and 2015 | 2,955,199 | 2,814,494 |
| Current portion of net investment in capital lease (Note 6) | 1,423,501 | 1,203,345 |
| Prepaid expenses and other assets, net | <u>2,113,907</u> | <u>3,468,963</u> |
| Total current assets | <u>21,070,622</u> | <u>23,316,754</u> |
| Noncurrent assets: | | |
| Restricted assets (Note 3) | 62,746,869 | 55,511,411 |
| Net investment in capital lease, less current portion (Note 6) | 29,437,284 | 30,860,786 |
| Property and equipment, net (Note 4) | <u>49,581,888</u> | <u>44,065,960</u> |
| Total noncurrent assets | <u>141,766,041</u> | <u>130,438,157</u> |
| Total assets | <u>\$ 162,836,663</u> | <u>\$ 153,754,911</u> |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 5,554,160 | \$ 3,588,780 |
| Security deposits payable and unearned revenues | <u>270,860</u> | <u>884,244</u> |
| | 5,825,020 | 4,473,024 |
| Current liabilities (payable from restricted assets): | | |
| Accrued interest payable | 1,808,419 | 1,947,944 |
| Current portion of long-term debt | <u>5,960,000</u> | <u>5,685,000</u> |
| | 7,768,419 | 7,632,944 |
| Total current liabilities | <u>13,593,439</u> | <u>12,105,968</u> |
| Noncurrent liabilities: | | |
| Long-term obligations, net of current portion (Note 5) | <u>73,852,242</u> | <u>80,644,339</u> |
| Total noncurrent liabilities | <u>73,852,242</u> | <u>80,644,339</u> |
| Total liabilities | <u>87,445,681</u> | <u>92,750,307</u> |
| Deferred inflows of resources: | | |
| Unamortized gain on bond refunding | <u>1,182,741</u> | <u>1,424,701</u> |
| Total deferred inflows of resources | <u>1,182,741</u> | <u>1,424,701</u> |
| Net position: | | |
| Invested in capital assets, net of related debt | 7,604,876 | (3,246,609) |
| Restricted | 41,950,639 | 35,791,283 |
| Unrestricted | <u>24,652,726</u> | <u>27,035,229</u> |
| Total net position | <u>74,208,241</u> | <u>59,579,903</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 162,836,663</u> | <u>\$ 153,754,911</u> |

The accompanying notes are an integral part of these financial statements.

United Nations Development Corporation

Statements of Revenues, Expenses and Changes in Net Position

| | For the years ended December 31, | |
|--|-------------------------------------|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Operating revenues: | | |
| Office space | \$ 33,706,156 | \$ 33,437,579 |
| Capital lease | 8,673,841 | 8,713,177 |
| Other income | <u>1,396,287</u> | <u>1,301,363</u> |
| Total operating revenues | <u>43,776,284</u> | <u>43,452,119</u> |
| Operating expenses: | | |
| Administrative salaries and employee benefits | 1,915,155 | 1,938,653 |
| Property manager's reimbursable salaries and employee benefits | 2,709,078 | 2,694,353 |
| Other operating costs | 12,625,483 | 12,839,091 |
| Depreciation and amortization (Note 2) | 5,275,496 | 5,343,857 |
| Rent and real estate taxes (Note 6) | 3,435,628 | 3,413,840 |
| Management fees | 128,503 | 70,613 |
| Professional fees | <u>266,575</u> | <u>228,093</u> |
| Total operating expenses | <u>26,355,918</u> | <u>26,528,500</u> |
| Operating income | <u>17,420,366</u> | <u>16,923,619</u> |
| Nonoperating revenues (expenses): | | |
| Interest income | 170,874 | 125,200 |
| Interest expense (Note 5) | (3,187,846) | (3,418,519) |
| Write-off of development-in-progress costs (Note 4) | - | (14,388,849) |
| Unrealized gain (loss) on restricted assets (Note 3) | <u>224,944</u> | <u>(54,115)</u> |
| Total nonoperating (expenses) | <u>(2,792,028)</u> | <u>(17,736,283)</u> |
| Change in net position | 14,628,338 | (812,664) |
| Net position, beginning of year | <u>59,579,903</u> | <u>60,392,567</u> |
| Net position, end of year | <u>\$ 74,208,241</u> | <u>\$ 59,579,903</u> |

The accompanying notes are an integral part of these financial statements.

United Nations Development Corporation

Statements of Cash Flows

| | For the years ended December 31, | |
|---|-------------------------------------|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Cash flows from operating activities: | | |
| Receipts from tenants | \$ 44,225,541 | \$ 42,609,352 |
| Payments to suppliers | (9,810,278) | (13,707,766) |
| Payments for rent and real estate taxes | (3,429,539) | (7,435,305) |
| Payments to employees for salaries and benefits | (4,589,373) | (4,602,763) |
| Net cash provided by operating activities | <u>26,396,351</u> | <u>16,863,518</u> |
| Cash flows from capital and related financing activities: | | |
| Decrease in long-term obligations | (382,540) | (382,540) |
| Repayments of principal on long-term debt | (5,685,000) | (5,435,000) |
| Interest payments on long-term debt | (4,018,888) | (4,270,888) |
| Capital expenditures for properties | (10,722,221) | (2,265,106) |
| Net cash used in capital and related financing activities | <u>(20,808,649)</u> | <u>(12,353,534)</u> |
| Cash flows from investing activities: | | |
| Interest and realized gains on investment securities | 170,874 | 125,200 |
| Maturities and redemptions of investment securities | 51,513,000 | 47,174,000 |
| Purchases of investment securities | (58,523,513) | (50,345,142) |
| Net cash used in investing activities | <u>(6,839,639)</u> | <u>(3,045,942)</u> |
| Net (decrease) increase in cash and cash equivalents | (1,251,937) | 1,464,042 |
| Cash and cash equivalents, beginning of year | <u>15,829,952</u> | <u>14,365,910</u> |
| Cash and cash equivalents, end of year | <u>\$ 14,578,015</u> | <u>\$ 15,829,952</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 17,420,366 | \$ 16,923,619 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,275,496 | 5,343,857 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (140,705) | (2,487,911) |
| Net investment in capital lease | 1,203,346 | 1,017,557 |
| Prepaid expenses and other assets | 1,285,852 | (885,514) |
| Accounts payable and accrued expenses | 1,965,380 | (3,675,677) |
| Security deposits payable and unearned revenues | (613,384) | 627,587 |
| Net cash provided by operating activities | <u>\$ 26,396,351</u> | <u>\$ 16,863,518</u> |

The accompanying notes are an integral part of these financial statements.

United Nations Development Corporation

Notes to Financial Statements

1. Organization: Development Projects

United Nations Development Corporation (the “Corporation”) is a public benefit corporation established under Chapter 345, Laws of the State of New York, 1968, as amended (the “Act”). The Corporation was created for the purpose of planning and developing facilities for United Nations (“UN”) related activities within a defined “United Nations development district” in the vicinity of UN Headquarters in New York City.

The Corporation’s major development projects since its establishment are as follows:

One United Nations Plaza

In 1976, the Corporation completed construction of a 39-story office building and hotel (the “Hotel”) at One United Nations Plaza (“One UN Plaza”) as part of the Phase I project, which included the buildings at 763 and 765 United Nations Plaza (together, “Phase I”). The buildings at 763 and 765 United Nations Plaza were sold in April 1999 and September 2000, respectively. In 1997, One UN Plaza was converted to a condominium and the portion of the Hotel included in Phase I was sold to a private hotel operator (the “Hotel Operator”). The office space in One UN Plaza is leased by the Corporation principally to the UN and foreign missions to the UN.

Two United Nations Plaza

In 1984, the Corporation completed construction of a 40-story office building and hotel at Two United Nations Plaza (“Phase II” or “Two UN Plaza”). In 1997, the portion of the hotel included in Phase II was leased to the Hotel Operator under a long-term lease. The office space in Two UN Plaza is leased by the Corporation principally to the UN and foreign missions to the UN.

Three United Nations Plaza

In 1987, the Corporation completed construction of a 15-story office-residential building at Three United Nations Plaza (“Phase III” or “Three UN Plaza”). UNICEF currently leases all of the space in Three UN Plaza for use as its world headquarters.

2. Significant Accounting Principles

Basis of accounting

The Corporation uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”), as prescribed by the Governmental Accounting Standards Board (“GASB”). GASB is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits that are either federally insured or collateralized with short-term investments in U.S. Government obligations with an original maturity of three months or less when acquired. All securities held by custodians as collateral are registered and are held in the Corporation’s name.

United Nations Development Corporation

Notes to Financial Statements

Operating and non-operating revenue

Revenue from leases is recognized as income as such amounts become receivable under the provisions of each lease, except that upfront lease payments received in advance of the period to which they apply are deferred and recognized as income during future periods. Given the nature of the Corporation's operations, revenue from leases and related fees and agreements is considered operating revenue. All other revenues are considered non-operating.

Investment in capital lease

The Corporation's lease with UNICEF at Three UN Plaza qualifies as a capital lease, which is stated at its net investment amount. Income is recognized over the life of the UNICEF lease, which expires in 2026.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations that improve and extend the useful life of an asset are capitalized. The Corporation's capitalization threshold is \$5,000.

Depreciation is computed by the straight-line method over the following periods: (i) 50 years for buildings; (ii) 3 to 25 years for building improvements; and (iii) 3 to 10 years for furniture, fixtures and equipment. The land represents a leasehold interest and is being amortized over the term of the 1972 Lease (as defined in Note 6).

Bond issuance costs

Bond issuance costs are recognized as expenses in the period incurred.

Net position

The Corporation's net position is classified in the following categories: (a) invested in capital assets, net of related debt: consisting of project assets, net of accumulated depreciation and deferred costs, reduced by the outstanding balance of debt attributable to the acquisition, construction, or improvement of those assets; (b) restricted assets: consisting of assets restricted for specific purposes by law or parties external to the Corporation; and (c) unrestricted assets: consisting of assets that are not classified either as invested in capital assets, net of related debt or restricted assets. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, and then unrestricted resources as they are needed.

Income taxes

No provision for taxes or deferred taxes has been included in these financial statements because the Corporation is exempt from federal and state income taxes as a public benefit corporation of the State of New York and a not-for-profit under Section 501(c)(3) of the Internal Revenue Code.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

United Nations Development Corporation

Notes to Financial Statements

Recent accounting pronouncements

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68" ("GASB 73"), is effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. GASB 73 establishes requirements that will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. GASB 73 does not have an impact on the Corporation's financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* ("GASB 74") is effective for fiscal years beginning after June 15, 2016. GASB 74 establishes requirements that will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB 74 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* ("GASB 75") is effective for fiscal years beginning after June 15, 2017. GASB 75 requires the liability of employers and non-employer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. GASB 75 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76") is effective for fiscal years beginning after June 15, 2015. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 does not have an impact on the Corporation's financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, ("GASB 77") is effective for fiscal years beginning after December 15, 2015. GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. GASB 77 does not have an impact on the Corporation's financial statements.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, ("GASB 78") is effective for fiscal years beginning after December 15, 2015. GASB 78 amends the scope and applicability of Statement 68 to exclude pensions provide to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and

United Nations Development Corporation

Notes to Financial Statements

to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). GASB 78 does not have an impact on the Corporation's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, ("GASB 79") is effective for fiscal years beginning after December 15, 2015. GASB 79 will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. GASB 79 does not have an impact on the Corporation's financial statements.

GASB Statement No. 80, *Blending Requirement for Certain Component Units – an amendment of GASB Statement No.14*, ("GASB 80") is effective for reporting periods beginning after June 15, 2016. GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB 80 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, ("GASB 81") is effective for periods beginning after December 15, 2016. GASB 81 will seek to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB 81 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No.73*, ("GASB 82") is effective for periods beginning after June 15, 2016. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, ("GASB 83") is effective for reporting periods beginning after June 15, 2018. GASB 83 addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. GASB 83 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 84, *Fiduciary Activities*, ("GASB 84") is effective for reporting periods beginning after December 15, 2018. The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how

United Nations Development Corporation

Notes to Financial Statements

those activities should be reported. GASB 84 is not expected to have an impact on the Corporation's financial statements.

3. Investments and restricted assets and fair value measurements

All investments are carried at fair value. Certain accounts are funded by the Corporation as required under the Indenture for the 2009 Bonds (as such terms are defined in Note 5). Such accounts are classified as restricted assets and consist of investments in U.S. Treasury Securities. Accounts funded under the Indenture are held as trust assets in the Corporation's name by The Bank of New York Mellon, as the Corporation's trustee and custodian under the Indenture.

The Corporation's permitted investments under the Indenture include: (i) obligations to which the faith and credit of the U.S. government are pledged; (ii) obligations, the payment of the principal of and interest on which are unconditionally guaranteed by the U.S. government; (iii) direct and general obligations of any state or political subdivision provided that such obligations are rated in either of the two highest rating categories by Moody's Investors Service ("Moody's"); (iv) bonds, debentures, participation certificates or notes issued by entities named in the Indenture (including Federal Home Loan Banks, Fannie Mae, Ginnie Mae or Freddie Mac); (v) Public Housing Bonds, Temporary Notes or Preliminary Loan Notes fully secured by contracts with the United States; (vi) certificates of deposit issued by banks in the State of New York having capital stock and surplus of more than \$50 million and rated at least A by Moody's and another nationally recognized rating agency, or fully secured by direct obligations of or obligations guaranteed by the U.S. government; (vii) repurchase agreements secured by any one or more of the securities described in clauses (i) through (iv) above; (viii) obligations of any corporation organized under the laws of any state in the United States maturing within two-hundred-seventy days, rated P-1 by Moody's, A-1+ by Standard & Poors and F-1+ by Fitch, Inc.; (ix) banker's acceptances maturing within ninety days rated P-1 by Moody's, A-1+ by Standard & Poor's and F-1+ by Fitch, Inc.; and (x) money market mutual funds invested in obligations issued or guaranteed by the U.S. government or in obligations of agencies or instrumentalities of the U.S. where the payment of principal and interest is guaranteed by the U.S. government.

United Nations Development Corporation

Notes to Financial Statements

Total restricted assets held by the Corporation at December 31, 2016 and 2015 included in the statements of net position were as follows:

| | | December 31, 2016 | | |
|---------------------------|--------------------------------|--------------------------|----------------------|--|
| | | Cost | Fair Value | Weighted average maturity (years) (a) |
| U.S. Treasury securities: | | | | |
| | Treasury Bills | \$ 995,125 | \$ 995,337 | 0.32 |
| | Treasury Notes | 58,449,828 | 58,420,992 | 0.81 |
| | Total U.S. Treasury Securities | <u>59,444,953</u> | <u>59,416,329</u> | |
| | Total Investments | 59,444,953 | 59,416,329 | |
| | Cash and cash equivalents | 3,330,540 | 3,330,540 | |
| | Total restricted assets | <u>\$ 62,775,493</u> | <u>\$ 62,746,869</u> | |
| | | December 31, 2015 | | |
| | | Cost | Fair Value | Weighted average maturity (years) (a) |
| U.S. Treasury securities: | | | | |
| | Treasury Notes | \$ 53,305,872 | \$ 53,052,304 | 0.90 |
| | Total U.S. Treasury Securities | <u>53,305,872</u> | <u>53,052,304</u> | |
| | Total Investments | 53,305,872 | 53,052,304 | |
| | Cash and cash equivalents | 2,459,107 | 2,459,107 | |
| | Total restricted assets | <u>\$ 55,764,979</u> | <u>\$ 55,511,411</u> | |

(a) Portfolio weighted average effective duration from the purchase date of investments.

The Corporation categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Corporation had the following recurring fair value measurements as of December 31, 2016 and 2015:

U.S. Treasury securities of \$59,416,329 and \$53,052,304, respectively, are valued using quoted market prices (Level 1 inputs).

United Nations Development Corporation

Notes to Financial Statements

4. Property and equipment

Property and equipment consisted of the following as of December 31, 2016 and 2015:

| | Balance at January 1, <u>2016</u> | Additions <u>2016</u> | Deletions <u>2016</u> | Balance at December 31, <u>2016</u> |
|--|---|--------------------------|--------------------------|---|
| Land | \$ 3,823,597 | \$ - | \$ - | \$ 3,823,597 |
| Building and building improvements | 141,931,852 | 10,692,685 | - | 152,624,537 |
| Furniture, fixtures and equipment | 1,340,399 | 29,536 | - | 1,369,935 |
| Development-in-progress | - | - | - | - |
| | <u>147,095,848</u> | <u>10,722,221</u> | <u>-</u> | <u>157,818,069</u> |
| Less: accumulated depreciation and amortization | <u>(103,029,888)</u> | <u>(5,206,293)</u> | <u>-</u> | <u>(108,236,181)</u> |
| Property and equipment, net | <u>\$ 44,065,960</u> | <u>\$ 5,515,928</u> | <u>\$ -</u> | <u>\$ 49,581,888</u> |

| | Balance at January 1, <u>2015</u> | Additions <u>2015</u> | Deletions <u>2015</u> | Balance at December 31, <u>2015</u> |
|--|---|--------------------------|--------------------------|---|
| Land | \$ 3,823,597 | \$ - | \$ - | \$ 3,823,597 |
| Building and building improvements | 140,153,816 | 1,778,036 | - | 141,931,852 |
| Furniture, fixtures and equipment | 1,316,211 | 24,188 | - | 1,340,399 |
| Development-in-progress | <u>13,925,967</u> | <u>462,882</u> | <u>(14,388,849)</u> | <u>-</u> |
| | <u>159,219,591</u> | <u>2,265,106</u> | <u>(14,388,849)</u> | <u>147,095,848</u> |
| Less: accumulated depreciation and amortization | <u>(97,755,233)</u> | <u>(5,274,655)</u> | <u>-</u> | <u>(103,029,888)</u> |
| Property and equipment, net | <u>\$ 61,464,358</u> | <u>\$ (3,009,549)</u> | <u>\$ (14,388,849)</u> | <u>\$ 44,065,960</u> |

State legislation enacted in 2011 and a Memorandum of Understanding signed by the Mayor and State legislative leaders authorized the Corporation to finance and construct a new build-to-suit office building for exclusive UN use along First Avenue and across 42nd Street from the UN Headquarters. The Corporation previously proposed to the UN the financing and construction by the Corporation of that new building. The purpose of the new building was to enable the UN to consolidate in a single location office space leased by the UN at multiple locations on the east side of Manhattan.

The UN decided in late 2015 not to proceed with the new building at that time. This decision meant that the financing and construction of the new building may not proceed for a number of years or may not proceed at any time.

The Corporation had capitalized in its financial statements as part of property and equipment the Corporation's development-in-progress costs for the new building project, which totaled \$14,388,849 through December 31, 2015. During the year ended December 31, 2015, the Corporation wrote off all of

United Nations Development Corporation

Notes to Financial Statements

the \$14,388,849 in development-in-progress costs included as part of property and equipment as of December 31, 2015, as these costs were not reasonably certain to have continuing value given the uncertainty as to whether the project would proceed.

5. Long-Term Debt

Long-term debt as of December 31, 2015 and 2016 was as follows:

| | Balance at January 1, <u>2015</u> | Additions/ Deletions <u>2015</u> | Balance at December 31, <u>2015</u> | Additions/ Deletions <u>2016</u> | Balance at December 31, <u>2016</u> |
|--|---|--|---|--|---|
| Bonds of 2009, Series A | \$ 85,650,000 | \$ (5,435,000) | \$ 80,215,000 | \$ (5,685,000) | \$ 74,530,000 |
| Bonds of 1980, due August 1, 2025 at 8% interest, payable semi-annually | 1,250,000 | - | 1,250,000 | - | 1,250,000 |
| Bonds of 1978, due July 1, 2028 at 8% interest, payable semi-annually | 287,500 | - | 287,500 | - | 287,500 |
| | <u>87,187,500</u> | <u>(5,435,000)</u> | <u>81,752,500</u> | <u>(5,685,000)</u> | <u>76,067,500</u> |
| Add: | | | | | |
| Unamortized bond premium | 3,416,999 | (465,953) | 2,951,046 | (449,557) | 2,501,489 |
| | <u>90,604,499</u> | <u>(5,900,953)</u> | <u>84,703,546</u> | <u>(6,134,557)</u> | <u>78,568,989</u> |
| Other long-term liabilities | 2,390,873 | (382,540) | 2,008,333 | (382,540) | 1,625,793 |
| Less: | | | | | |
| Current portion of long-term debt | (5,435,000) | (250,000) | (5,685,000) | (275,000) | (5,960,000) |
| Current portion of other long-term obligations | <u>(382,540)</u> | <u>-</u> | <u>(382,540)</u> | <u>-</u> | <u>(382,540)</u> |
| Long-term obligations, net of current portion | <u>\$ 87,177,832</u> | <u>\$ (6,533,493)</u> | <u>\$ 80,644,339</u> | <u>\$ (6,792,097)</u> | <u>\$ 73,852,242</u> |

2009 Refunding Bonds, Series A

The Corporation's 2009 Refunding Bonds, Series A (the "2009 Bonds") were issued on October 29, 2009 under an Indenture of Trust dated as of December 1, 1992 (the "Indenture"), between the Corporation and The Bank of New York Mellon, as Trustee, as amended and supplemented by supplemental indentures dated as of March 1, 1995, January 1, 1997, July 1, 1997, July 1, 1998, January 29, 2004 and October 29, 2009. The 2009 Bonds were issued in a face amount of \$111,475,000, at a net premium of \$5,497,093. The net proceeds of the 2009 Bonds were used, together with other funds held under the Indenture, to redeem the 2004 Bonds in November 2009. Amortization of the bond premium relating to the 2009 Bonds was \$449,557 for 2016 and \$465,953 for 2015, respectively.

Interest on the 2009 Bonds is payable semiannually on January 1 and July 1 at various rates, ranging from 2.00% to 5.00%. Interest expense is reflected at a constant effective yield (including

United Nations Development Corporation

Notes to Financial Statements

amortization of premium and issue costs). The 2009 Bonds are subject to mandatory annual redemption of stated principal amounts from July 2010 through July 2026.

The 2009 Bonds are collateralized by net revenues from Phases I, II and III and amounts in the funds and accounts held by the Trustee.

The Corporation incurred issuance costs of \$1,919,426 with respect to the 2009 Bonds.

Bonds of 1980 and Bonds of 1978

The Bonds of 1980 and the Bonds of 1978 are special purpose revenue bonds which require payments of interest only to maturity of \$100,000 and \$23,000 per annum, respectively. Debt service on these bonds is senior to that of the 2009 Bonds and was senior to that of the 2004 Bonds.

Maturities of Long-Term Debt

The principal and interest payments on the Corporation's long-term debt are due as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|----------------------|----------------------|
| Year ending December 31, | | | |
| 2017 | \$ 5,960,000 | \$ 3,739,837 | \$ 9,699,837 |
| 2018 | 6,260,000 | 3,441,837 | 9,701,837 |
| 2019 | 6,565,000 | 3,136,988 | 9,701,988 |
| 2020 | 6,890,000 | 2,812,237 | 9,702,237 |
| 2021 | 7,200,000 | 2,503,238 | 9,703,238 |
| 2022 to 2026 * | 42,905,000 | 6,769,213 | 49,674,213 |
| 2027 to 2028 | 287,500 | 46,000 | 333,500 |
| | <u>\$ 76,067,500</u> | <u>\$ 22,449,350</u> | <u>\$ 98,516,850</u> |

* Represents total amounts for the five-year period.

6. Leases

As Lessee:

The City of New York

Under a lease agreement, dated August 1, 1972, as amended (the "1972 Lease"), and a lease agreement dated May 8, 1981, as amended (the "1981 Lease" and together with the 1972 Lease, the "City Leases"), the Corporation leases from the City Phase I (excluding the hotel portion) and the underlying land, Phase II (but not the underlying land, which is leased under the Phase II Ground Lease referred to below), and Phase III and the underlying land. Rent payable to the City under the City Leases is subordinate to debt service on the 2009 Bonds and was subordinate to debt service on the 2004 Bonds prior to redemption in November 2009. The City Leases include the following provisions:

United Nations Development Corporation

Notes to Financial Statements

- The terms of the City Leases will continue until all bond obligations issued in connection with Phases I, II, and III are paid, but not beyond December 18, 2071 for the 1972 Lease and May 7, 2080 for the 1981 Lease.
- The City Leases may be terminated at any time by the City, provided that the City purchases the Corporation's interests under the City Leases for amounts at least sufficient to pay the Corporation's bond obligations with respect to Phases I, II, and III.
- The Corporation pays base rent equivalent to full real estate taxes on the portions of One and Two UN Plaza not occupied by the UN, missions to the UN or used as a community facility. The Corporation's base rent on account of Three UN Plaza is fixed at \$481,000 annually through the expiration of the City Leases. Total base rent under the City Leases was \$1,609,301 and \$1,579,345 for the years ended December 31, 2016 and 2015, respectively.
- Rent is payable only from revenues remaining after payment of operating expenses and other obligations, including debt service, of Phases I, II, and III.
- In addition to the amounts described above, the 1981 Lease obligates the Corporation to pay additional rent equal to ninety percent of Consolidated Surplus (as defined in the 1981 Lease) provided that the minimum amount payable must be the greater of \$85,000 or the Applicable United Nations Rent Surplus, as defined, but in no event more than the Consolidated Surplus for such year.

In March 2017, in connection with the year ended December 31, 2016, the Board of Directors established a reserve from the Corporation's 2016 revenues of \$2,078,883, as permitted under the 1981 Lease, to be available to pay costs related to capital improvement projects at One and Two UN Plaza. Consequently, there was no Consolidated Surplus for the year ended December 31, 2016 and no additional rent was payable to the City for 2016.

In March 2016, in connection with the year ended December 31, 2015, the Board of Directors established a reserve from the Corporation's 2015 revenues of \$6,143,025, as permitted under the 1981 Lease, to pay costs for the installation of new façade maintenance systems at One and Two UN Plaza or for other capital improvement projects. Consequently, there was no Consolidated Surplus for the year ended December 31, 2015 and no additional rent was payable to the City for 2015.

Phase II Ground Lease

The Corporation holds a 99-year leasehold expiring in 2079 from a private party on the land underlying Phase II. Annual rental payments of \$250,000 are payable through the year 2025 under the ground lease for such land; annual rental payments after 2025 will be increased based on changes in the Consumer Price Index compared to the Consumer Price Index as of February 1, 2014. The Corporation has an option exercisable at any time between August 1, 2020 and July 31, 2025 to purchase the land at fair market value on the exercise date, less the principal amount of the Bonds of 1980, as described in Note 5. At December 31, 2016, aggregate future minimum rentals under this ground lease approximated \$15,750,000, assuming the Corporation does not exercise the purchase option.

United Nations Development Corporation

Notes to Financial Statements

As Lessor:

Phase I

The office space in One UN Plaza is leased principally to the UN and missions to the UN, and a portion of the ground floor of the building is leased to a retail tenant. The One UN Plaza lease from the Corporation to the UN expires on March 31, 2023, following the UN's exercise in September 2016 of its option to extend the lease from 2018 to 2023 at a predetermined fixed rent. The remaining terms of other leases at One UN Plaza range from approximately five to thirteen years (assuming no exercise of tenant renewal options). Fixed minimum rents under the One UN Plaza leases, excluding operating expense escalations, will be approximately \$11.4 million in 2017, \$11.9 million in 2018, \$12.0 million in 2019, \$12.3 million in 2020 and \$11.9 million in 2021.

Phase II

The office space in Two UN Plaza is leased principally to the UN and missions to the UN. The Two UN Plaza lease from the Corporation to the UN expires on March 31, 2023, following the UN's exercise in September 2016 of its option to extend the lease from 2018 to 2023 at a predetermined fixed rent. The remaining terms of other leases at Two UN Plaza range from approximately one to twelve years (assuming no exercise of tenant renewal options). Fixed minimum rents under the Two UN Plaza leases, excluding operating expense escalations, will be approximately \$12.1 million in 2017, \$12.3 million in 2018, \$12.2 million in 2019, \$11.9 million in 2020 and \$11.9 million in 2021.

The hotel space at Two UN Plaza is leased to the Hotel Operator for a term expiring in 2079, matching the term of the Phase II ground lease. The Hotel Operator is responsible for reimbursement to the Corporation of its allocable portion of building operating expenses, including ground rent.

Phase III

All rentable space in Three UN Plaza is leased to UNICEF under a lease expiring in 2026. Subject to UNICEF meeting certain conditions, including maintaining its world headquarters in New York City, the City agreed to transfer title to Three UN Plaza to UNICEF in 2026 upon expiration of the lease term without any additional payment from UNICEF. As part of that agreement, the Corporation would transfer to the City its leasehold interest in Three UN Plaza. The lease with UNICEF is accounted for as a capital lease.

UNICEF's annual base rent, exclusive of operating expense escalations, in 2016 and for each year through the lease termination date in 2026 will be approximately \$6.7 million.

United Nations Development Corporation

Notes to Financial Statements

Net investment in capital lease (with UNICEF)

The components of the net investment in the capital lease with UNICEF as of December 31, 2016 and 2015 are as follows:

| | December 31, | |
|--|----------------------|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Total minimum lease payments to be received | \$ 61,968,287 | \$ 68,491,265 |
| Less: Unearned income | (31,107,502) | (36,427,134) |
| Less: Current portion of net investment in capital lease | <u>(1,423,501)</u> | <u>(1,203,345)</u> |
| Total net investment in capital lease (long-term) | <u>\$ 29,437,284</u> | <u>\$ 30,860,786</u> |

7. Retirement Plans

The Corporation has a Simplified Employee Pension retirement plan (“SEP”) covering employees of age 21 or over with one year or more of service. The Corporation’s contributions are made directly to employee SEP accounts in amounts ranging from 12% to approximately 14% of base compensation. Contributions to the SEP plan were \$163,725 and \$177,158 for the years ended December 31, 2016 and 2015, respectively.

The Corporation also funds a deferred compensation plan for employees under Section 457(b) of the Internal Revenue Code. Contributions to the 457(b) Plan were \$82,034 and \$80,409 for the years ended December 31, 2016 and 2015, respectively.

United Nations Development Corporation
Supplemental Schedule of Phases I, II and III
Net Revenues in Excess of Debt Service Requirements

For the year ended December 31, 2016

| | <u>Phase I</u> | <u>Phase II</u> | <u>Phase III</u> | <u>Total</u> |
|---|-----------------------------|---------------------|-----------------------------|----------------------|
| Office Space | | | | |
| Revenues and income from capital lease | \$ 16,169,325 | \$ 17,536,831 | \$ 8,673,840 | \$ 42,379,996 |
| Operating expenses | <u>(5,586,798)</u> | <u>(5,686,651)</u> | <u>(3,912,214)</u> | <u>(15,185,663)</u> |
| | \$ 10,582,527 | \$ 11,850,180 | \$ 4,761,626 | \$ 27,194,333 |
| Fee Income-Tenant Alteration Work | | | 103,110 | 103,110 |
| Other Income (Note A) | | 1,293,177 | | 1,293,177 |
| Interest Income | <u>62,447</u> | <u>62,447</u> | <u>31,224</u> | <u>156,118</u> |
| Gross Revenues | 10,644,974 | 13,205,804 | 4,895,960 | 28,746,738 |
| General and Administrative Expenses | (1,019,055) | (1,010,581) | (498,702) | (2,528,338) |
| Ground Rent | | (250,000) | | (250,000) |
| Interest Expense on the Bonds of 1978 and 1980 | | (123,000) | | (123,000) |
| Real Estate Taxes to The City of New York | <u> </u> | <u>(1,576,328)</u> | <u> </u> | <u>(1,576,328)</u> |
| Net Revenues (Note B) | 9,625,919 | 10,245,895 | 4,397,258 | 24,269,072 |
| Base Rent to The City of New York (Note C) | (93,912) | (1,034,389) | (481,000) | (1,609,301) |
| Debt Service Requirements (Note D) | <u>(3,209,013)</u> | <u>(3,988,191)</u> | <u>(2,383,684)</u> | <u>(9,580,888)</u> |
| Net Revenues in Excess of Debt Service Requirements | <u>\$ 6,322,994</u> | <u>\$ 5,223,315</u> | <u>\$ 1,532,574</u> | <u>\$ 13,078,883</u> |

See Notes to Supplemental Schedule.

United Nations Development Corporation
Notes to Supplemental Schedule of Phases I, II and III

A. Other Income:

Phase II other income represents payment from the Hotel Operator of its proportionate share of ground rent, real estate taxes and rent to the City of New York.

B. Net Revenues:

Net revenues include interest income and all Phase I, II and III operating revenues and expenses, except for depreciation, amortization and interest expense on the 2009 Bonds.

C. Base Rent to The City of New York:

Payments of base rent to The City of New York are subordinate to the Phase I, II, and III debt service requirements.

D. Debt Service Requirements:

Debt service requirements include interest and principal payments for 2016 on the 2009 Bonds.