United Nations
Development Corporation

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UNDC

March 31, 2020

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
<u>For Fiscal Year 2019</u>

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, 2019.

Background

The Corporation is a public benefit corporation organized and existing under the laws of the State of New York (the "State"), including particularly Chapter 345, Laws of New York, 1968, as amended (the "Act"), to undertake coordinated development of office space and other facilities in the area of the United Nations headquarters in The City of New York (the "City") needed for the official international community in the City, including the United Nations (the "U.N."), missions to the U.N. and U.N.-related programs and activities. In addition, the Corporation provides real estate advice and services to the State and City, the United States and the U.N. The Corporation enables the people of the State and City to meet their responsibilities as hosts to the U.N., and to provide suitable facilities for the international community near the U.N. 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 of the State, five are appointed by the Mayor of the City (the "Mayor") after consultation with the Secretary-General of the U.N. and the United States Ambassador to the U.N., and two serve *ex officio* by virtue of their offices as Chairman of the New York City Planning Commission and Commissioner of the New York 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.

The UNDC Properties

Pursuant to the Act, the Corporation has: (1) developed a 39-story, combined-use office building and hotel located on the northwest corner of First Avenue and 44th Street, which opened in 1975 and is known as One U.N. Plaza (sometimes referred to as the Phase I Property); (2) developed a 40-story, combined-use office building and hotel, located between East 44th and 45th Streets, west of and adjacent to One U.N. Plaza, which opened in 1983 and is known as Two U.N. Plaza (sometimes referred to as the Phase II Property); and (3) developed a 15-story office building, with an adjacent urban plaza, located on the south side of East 44th Street, between First and Second Avenues, across from One and Two U.N. Plaza, which opened in 1987 and is known as Three U.N. Plaza (sometimes referred to as the Phase III Property). Each of these three properties is located directly across First Avenue from U.N. headquarters in the City. The three properties are referred to collectively herein as the "UNDC Properties."

The Corporation transferred its interest in all three UNDC Properties to the City and leased back the same for 99 years under the City Leases, as referred to below.

One U.N. Plaza includes approximately 358,000 square feet of office space located on floors 2 through 26, approximately 5,000 square feet of ground floor retail space, hotel space located on floors 2 and 27 through 39, and separate ground floor office and hotel lobby areas. In 1997, the hotel portion of One U.N. Plaza was sold to a private hotel operator (the "Hotel Operator") and One U.N. Plaza was converted into a condominium.

Two U.N. Plaza includes approximately 388,951 square feet of office space located on floors 2 through 28, hotel space located on floors 29 through 40, separate ground floor office and hotel lobby areas, approximately 11,000 square feet formerly used as a pre-school, and approximately 10,000 square feet of storage space. In 1997, the hotel portion of Two U.N. Plaza was leased to the Hotel Operator under a long-term prepaid net lease.

Three U.N. Plaza includes approximately 205,000 square feet of office space, with an adjacent public plaza of approximately 5,000 square feet.

Operations

The Corporation operates and maintains the non-hotel portions of One and Two U.N. Plaza, and all of Three U.N. Plaza. The Corporation's principal tenants are the U.N. and foreign missions to the U.N. Together they lease and occupy approximately 712,000 square feet, or 99%, of the rentable office space in One and Two U.N. Plaza. The United Nations Children's Fund ("UNICEF") leases and occupies all of the approximately 205,000 square feet of office space in

Three U.N. Plaza.

The City Leases

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

Under a lease with the City for the Phase II Property, the Corporation pays the City base rent for the portion of Two U.N. Plaza that is not occupied by the U.N., missions to the U.N., or U.N.-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 U.N. 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 Phase III Property, the Corporation pays the City a fixed rental amount with respect to Three U.N. Plaza.

The Corporation's payments to the City with respect to the 2019 fiscal year totaled $3,336,938, consisting of $1,773,900 in base rent, and $1,563,038 in real estate taxes.

Bonds Outstanding

As of December 31, 2019, the Corporation had the following bonds outstanding:

1. 2019 Refunding Bonds, Series A (the "2019 Bonds"), issued on April 11, 2019 in aggregate principal amount of $42,085,000. The proceeds from the 2019 Bonds were used to redeem the Corporation's 2009 Bonds on July 1, 2019. The 2019 Bonds are collateralized by a pledge of the net revenues from the UNDC Properties, and all funds and accounts held by the trustee under the Corporation's bond indenture. During 2019, the UNDC Properties produced net revenues after payment of operating expenses with coverage of 3.07 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 UNDC Properties and expects that net revenues from operations of the UNDC Properties will continue to exceed the amounts required for debt service on the 2019 Bonds.

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, 2019 were audited by Marks Paneth LLP and approved by the Board at its annual meeting on March 26, 2020. A copy of the audited financial statements is attached to this report.

Respectfully submitted,

Robert Cole

Robert Cole
Executive Vice President

Attachments:
1. List of current directors and officers
2. Audited financial statements for the year ended December 31, 2019

UNITED NATIONS DEVELOPMENT CORPORATION
DIRECTORS AND OFFICERS

DIRECTORS:

Name	Original Date of Appointment	Occupation/Affiliation
Mayor's Appointees:		
George Klein, Chairman	11/1971	Chairman & CEO, Park Tower Group
Penny Abeywardena	03/2015	Commissioner, Mayor's Office for International Affairs
Christine Falvo	06/2016	Chief Operating Officer, Rubenstein
Jessica Healy	06/2016	Global Real Estate Development Professional
Joel M. Silverman	03/2012	Joel M. Silverman and Associates, LLC
Ex-Officio:		
Marisa Lago	02/2017	Chair, New York City Planning Commission
Louise Carroll	05/2019	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	President, The Engel Burman Group
Amabel B. James	12/2014	James Family Foundation
David S. Mack	10/2017	The Mack Company
Samuel Natapoff	12/2010	President, Empire Global Ventures LLC
Joseph Rutigliano	09/2015	Managing Member, Ruterra Partners, LLC
Andy K. Shenoy	12/2010	President, Mitra Enterprises, Inc.; Executive Director, Trivision Health Center
VACANT		

UNITED NATIONS DEVELOPMENT CORPORATION
DIRECTORS AND OFFICERS

OFFICERS:

Robert Cole, Executive Vice President and General Counsel. 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, Vice President and 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, 2019 and 2018
and Supplemental Schedule
For the Year Ended December 31, 2019

MARKS PANETH
ACCOUNTANTS & ADVISORS

United Nations Development Corporation
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MARKS PANETH
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, 2019 and 2018, which collectively comprise the Corporation's basic 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Nations Development Corporation as of December 31, 2019 and 2018, 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 7 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 25 and 26 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
April 14, 2020

Overview

The following Management's Discussion and Analysis provides an overview of the financial performance of the United Nations Development Corporation (the "Corporation") as of and for the fiscal years ended December 31, 2019 and 2018. It also provides an introduction to the Corporation's financial statements (including the notes to the financial statements) which follow this section.

The financial statements, which include the statements of net position, the statements of revenues, expenses, and changes in net position, the statements of cash flows and the notes to the financial statements, provide information about the Corporation 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 following 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. The following is a comparison of the Corporation's assets, liabilities, deferred inflows of resources, and net position at December 31, 2019, 2018 and 2017.

	2019	2018	2017
Assets:			
Current assets	$ 52,240,180	$ 32,973,431	$ 25,668,153
Restricted assets	48,273,562	61,531,700	59,889,544
Property and equipment, net	54,242,111	58,694,268	57,218,942
Other noncurrent assets	23,397,217	25,758,695	27,752,780
Total assets	$ 178,153,070	$ 178,958,094	$ 170,529,419
Liabilities:			
Total current liabilities	$ 23,144,037	$ 14,239,370	$ 14,673,540
Long-term obligations, net of current portion	43,519,417	59,457,649	66,790,907
Total liabilities	66,663,454	73,697,019	81,464,447
Deferred inflows of resources			
Unamortized gain on bond refunding	1,576,927	757,842	960,130
Total deferred inflows of resources	1,576,927	757,842	960,130
Net position	109,912,689	104,503,233	88,104,842
Total liabilities, deferred inflows of resources and net position	$ 178,153,070	$ 178,958,094	$ 170,529,419

2019 vs. 2018

At December 31, 2019, the Corporation had total assets of $178.2 million, a decrease of $800,000 from $179.0 million at December 31, 2018.

Current assets at December 31, 2019 were $52.2 million, an increase of $19.2 million over 2018. Current assets consist of cash and cash equivalents, accounts receivable, the current portion of the Corporation's net investment in its capital lease with UNICEF, and prepaid expenses and other assets (net). The increase in current assets is attributable to an increase in cash and cash equivalents of $15.9 million and an increase of $3.1 million in accounts receivable.

As described in Note 5, the Corporation issued its 2019 Refunding Bonds, Series A ("2019 Bonds") on April 11, 2019, in the principal amount of $42,085,000. The proceeds of the 2019 Bonds were used to refund the 2009 Refunding Bonds, Series A ("2009 Bonds") on July 1, 2019. The purpose of the refunding was to reduce the Corporation's debt service obligations.

Restricted assets represent funds held in investment accounts under the Indenture for the 2019 Bonds. Restricted assets were $48.3 million at December 31, 2019, a decrease of $13.2 million from $61.5 million for 2018, reflecting lower required fund balances under the Indenture for the 2019 Bonds, including the elimination in the 2019 Indenture of a required debt reserve fund (as compared to the 2009 Bonds).

Other noncurrent assets at December 31, 2019 and 2018 were $23.4 million and $25.8 million, respectively, representing the Corporation's net investment in those years on its capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2019 were $23.1 million, an increase of $8.9 million from $14.2 million at December 31, 2018, reflecting $10.7 million in additional rent payable to the City of New York for 2019 under the Corporation's 1981 lease from the City referred to in Note 6, which was offset by a decrease of $455,000 in accrued interest payable and a decrease of $1.4 million in the current portion of long-term debt. Long-term obligations, net of current portion, were $43.5 million at December 31, 2019, a decrease of $15.9 million from 2018, reflecting the lower principal amount of the 2019 Bonds.

Deferred inflows of resources at December 31, 2019 were $1.6 million, an increase of $820,000 from 2018, due to the $1.9 million gain on the refunding of the Bonds in 2019, offset by the current year amortization of the unamortized gain on bond refunding.

On November 30, 2019, the Corporation entered into a Confidential Settlement Agreement with the private hotel operator (the "Hotel Operator") which operates the hotel portions of both One UN Plaza and Two UN Plaza. The Settlement Agreement provides for the Hotel Operator to replace piping that is located in and serves only the hotel portions of One UN Plaza. The Corporation has been advised by engineers it has engaged that the replacement of the piping is needed to protect the Corporation from the risk of water leakage and resulting physical damage to the portions of One UN Plaza that the Corporation leases, as referred to in Note 6. Under the Settlement Agreement, the Corporation agreed to pay to the Hotel Operator up to $3 million of the cost of the piping replacement, subject to the provisions and requirements of the Settlement Agreement. The Corporation anticipates that a payment of $3 million will made to the Hotel Operator in April or May of 2020 under the Settlement Agreement.

2018 vs. 2017

At December 31, 2018, the Corporation had total assets of $179.0 million, an increase of $8.4 million from $170.5 million at December 31, 2017. The increase in total assets is attributable to increases of $7.3 million in current assets, $1.6 million in restricted assets and $1.5 million in property and equipment, which were offset by a decrease of $2.0 million in other noncurrent assets. The increase in property and equipment consisted of capital additions of $8.1 million offset by depreciation and amortization expense of $6.6 million.

The increase in restricted assets for 2018 as compared to 2017 primarily reflects an increase in fund balances under the Indenture for the 2009 Bonds. Other noncurrent assets at December 31, 2018 and 2017 include $25.8 million and $27.8 million, respectively, representing the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2018 were $14.2 million, a decrease of $434,000 from $14.7 million at December 31, 2017. The decrease in current liabilities is due primarily to a decrease of $459,000 in accounts payable and accrued expenses. Long-term obligations, net of current portion, were $59.5 million at December 31, 2018, a decrease of $7.3 million from 2017, primarily due to the repayment of principal amounts on the 2009 Bonds.

Deferred inflows of resources at December 31, 2018 were $757,800, a decrease of $202,000 from 2017, reflecting the current year amortization of the previous gain on bond refunding.

Statements of Revenues, Expenses and Changes in Net Position

The following is a summary of the Corporation's revenues, expenses, and change in net position for the years ended December 31, 2019, 2018 and 2017.

	2019	2018	2017	2019 vs. 2018 (%)	2018 vs. 2017 (%)
Total operating revenues	$ 48,227,333	$ 47,365,582	$ 44,479,548	2%	6%
Total operating expenses	42,593,237	29,434,242	28,050,794	45%	5%
Operating income	5,634,096	17,931,340	16,428,754		
Nonoperating revenues (expenses):					
Interest income	1,321,357	925,672	477,420	43%	94%
Interest expense	(997,111)	(2,701,406)	(2,949,431)	-63%	-8%
Loss on disposal of office equipment	-	-	(1,565)	-	100%
Issuance costs	(901,473)	-	-	-100%	-
Unrealized gain (loss) on restricted assets	352,587	242,785	(58,577)	45%	514%
Total nonoperating expenses	(224,640)	(1,532,949)	(2,532,153)	-85%	-39%
Change in net position	5,409,456	16,398,391	13,896,601		
Net position, beginning of year	104,503,233	88,104,842	74,208,241	19%	19%
Net position, end of year	$ 109,912,689	$ 104,503,233	$ 88,104,842	5%	19%

Operating Revenues. Operating revenues for the years ended December 31, 2019, 2018 and 2017 were $48.2 million, $47.4 million and $44.5 million, respectively. The increase in operating revenues for 2019 as compared to 2018 was due primarily to an increase in rents, effective April 2018, under the UN leases at One and Two UN Plaza and an increase in the pass through to tenants in 2019 on account of increases in operating expenses as compared to prior years. The increase in operating revenues for 2018 as compared to 2017 was due primarily to an increase in operating expenses that were passed through to tenants.

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 Three UN Plaza for use as its world headquarters.

Operating Expenses. Total operating expenses for the years ended December 31, 2019, 2018 and 2017 were $42.6 million, $29.4 million and $28.1 million, respectively. The increase of $13.2 million in operating expenses in 2019 over 2018 reflects the $10.7 million in additional rent payable to the City of New York and the increase of $1.6 million in legal, engineering and other professional fees related to the disputes between the Corporation and the Hotel Operator referred to on page 4 of this Management's Discussion and Analysis.

Nonoperating Revenues (Expenses). Total nonoperating expenses for the years ended December 31, 2019, 2018 and 2017 were $225,000, $1.5 million and $2.5 million, respectively, reflecting an increase in interest income and a reduction in interest expense due to the issuance of the 2019 Bonds.

Interest income for the years ended December 31, 2019, 2018 and 2017 was $1.3 million, $925,672 and $477,420, respectively. The increases in interest income year over year reflect increases in the Corporation's investment accounts combined with increases in interest rates on the Corporation's investments.

Net Position. The total net position at December 31, 2019, 2018 and 2017 was $110.0 million, $104.5 million and $88.1 million, respectively.

The Corporation issued the 2019 Bonds on April 11, 2019 at a face amount of $42,085,000 to refund the then outstanding 2009 Bonds. The 2019 Bonds were rated Aa3 by Moody's and AA by Fitch. The 2009 Bonds were rated A1 by Moody's and A+ by Fitch.

The 2019 Bonds pay semi-annual interest on January 1 and July 1 at various rates and are subject to mandatory annual redemption of stated principal amounts on July 1. The balance of the 2019 Bonds as of December 31, 2019 was $42,085,000.

United Nations Development Corporation
Statements of Net Position

	As of December 31,	
	2019	**2018**
Assets:		
Current assets:		
Cash and cash equivalents (Note 2)	$ 35,628,134	$ 19,714,975
Accounts receivable, less allowance for doubtful accounts of $3,700 in 2019 and 2018	9,341,965	6,272,215
Current portion of net investment in capital lease (Note 6)	2,361,479	1,994,085
Prepaid expenses and other assets, net	4,908,602	4,992,156
Total current assets	52,240,180	32,973,431
Noncurrent assets:		
Restricted assets (Note 3)	48,273,562	61,531,700
Net investment in capital lease, less current portion (Note 6)	23,397,217	25,758,695
Property and equipment, net (Note 4)	54,242,111	58,694,268
Total noncurrent assets	125,912,890	145,984,663
Total assets	$ 178,153,070	$ 178,958,094
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,094,159	$ 5,085,254
Security deposits payable and unearned revenues	1,077,847	1,082,122
	6,172,006	6,167,376
Current liabilities (payable from restricted assets):		
Rent payable to The City of New York (Note 6)	10,749,906	-
Accrued interest payable	1,052,125	1,506,994
Current portion of long-term debt	5,170,000	6,565,000
	16,972,031	8,071,994
Total current liabilities	23,144,037	14,239,370
Noncurrent liabilities:		
Long-term obligations, net of current portion (Note 5)	43,519,417	59,457,649
Total noncurrent liabilities	43,519,417	59,457,649
Total liabilities	66,663,454	73,697,019
Deferred inflows of resources:		
Unamortized gain on bond refunding	1,576,927	757,842
Total deferred inflows of resources	1,576,927	757,842
Net position:		
Net investment in capital assets	34,652,485	27,253,158
Restricted	29,212,621	39,518,092
Unrestricted	46,047,583	37,731,983
Total net position	109,912,689	104,503,233
Total liabilities, deferred inflows of resources and net position	$ 178,153,070	$ 178,958,094

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, 2019	2018
Operating revenues:		
Office space	$ 37,444,444	$ 36,837,154
Capital lease	8,666,595	8,822,526
Other income	2,116,294	1,705,902
Total operating revenues	48,227,333	47,365,582
Operating expenses:		
Administrative salaries and employee benefits	1,843,984	1,775,079
Property manager's reimbursable salaries and employee benefits	3,133,076	3,082,334
Other operating costs	15,952,788	14,110,726
Depreciation and amortization (Note 4)	7,011,032	6,637,429
Rent and real estate taxes (Note 6)	14,336,844	3,539,589
Management fees	151,468	147,600
Professional fees	164,045	141,485
Total operating expenses	42,593,237	29,434,242
Operating income	5,634,096	17,931,340
Nonoperating revenues (expenses):		
Interest income	1,321,357	925,672
Interest expense (Note 5)	(997,111)	(2,701,406)
Issuance costs	(901,473)	-
Unrealized gain on restricted assets (Note 3)	352,587	242,785
Total nonoperating (expenses)	(224,640)	(1,532,949)
Change in net position	5,409,456	16,398,391
Net position, beginning of year	104,503,233	88,104,842
Net position, end of year	$ 109,912,689	$ 104,503,233

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, 2019	2018
Cash flows from operating activities:		
Receipts from tenants	$ 47,147,392	$ 46,346,504
Payments to suppliers	(16,243,023)	(15,571,759)
Payments for rent and real estate taxes	(3,588,645)	(3,539,589)
Payments to employees for salaries and benefits	(4,965,235)	(4,847,401)
Net cash provided by operating activities	22,350,489	22,387,755
Cash flows from capital and related financing activities:		
Decrease in long-term obligations	(382,540)	(382,540)
Proceeds from issuance of long-term debt at a premium	48,031,830	-
Payment of bond issuance costs	(901,473)	-
Net gain on 2009 bonds	(366,894)	-
Repayments of principal on long-term debt	(62,310,000)	(6,260,000)
Interest payments on long-term debt	(2,938,523)	(3,441,837)
Capital expenditures for properties	(2,501,811)	(8,052,653)
Net cash used in capital and related financing activities	(21,369,411)	(18,137,030)
Cash flows from investing activities:		
Interest and realized gains on investment securities	1,321,357	925,672
Maturities and redemptions of investment securities	53,908,285	50,625,000
Purchases of investment securities	(40,297,561)	(52,024,371)
Net cash provided by (used in) investing activities	14,932,081	(473,699)
Net increase in cash and cash equivalents	15,913,159	3,777,026
Cash and cash equivalents, beginning of year	19,714,975	15,937,949
Cash and cash equivalents, end of year	$ 35,628,134	$ 19,714,975
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 5,634,096	$ 17,931,340
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,011,032	6,637,429
Changes in operating assets and liabilities:		
Accounts receivable	(3,069,750)	(2,575,817)
Net investment in capital lease	1,994,085	1,684,504
Prepaid expenses and other assets	26,490	(702,956)
Accounts payable and accrued expenses	10,758,811	(458,980)
Security deposits payable and unearned revenues	(4,275)	(127,765)
Net cash provided by operating activities	$ 22,350,489	$ 22,387,755

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

1. Organization: Properties

United Nations Development Corporation (the "Corporation") is a public benefit corporation created in 1968 under the laws of the State of New York, particularly Chapter 345, Laws of the State of New York, 1968, as amended (the "Act"). The Corporation was created to undertake coordinated development of office space and other facilities within a defined United Nations development district in the area of the United Nations headquarters in The City of New York (the "City") needed for the official international community in the City, including the United Nations (the "UN"), missions to the UN and UN-related programs and activities.

The Corporation developed and currently operates the following properties:

One United Nations Plaza

One United Nations Plaza ("One UN Plaza") is a 39-story mixed-use office building and hotel constructed by the Corporation that opened in 1975 as part of the Phase I project, which also 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 separated into a condominium with two units, one unit consisting of the hotel portions of the building, which was sold to the Hotel Operator, and the second unit consisting of the office space, ground floor retail space and other portions of One UN Plaza. The Corporation leases the office space at One UN Plaza principally to the UN and foreign missions to the UN.

Two United Nations Plaza

Two United Nations Plaza ("Two UN Plaza" or "Phase II") is a 40-story mixed-use office building and hotel constructed and operated by the Corporation that opened in 1983. The hotel portion of Two UN Plaza was leased in 1997 to the Hotel Operator under a long-term lease expiring in 2079. The Corporation leases the office space at Two UN Plaza principally to the UN and foreign missions to the UN.

Three United Nations Plaza

Three United Nations Plaza ("Three UN Plaza" or "Phase III"), which opened in 1987, is a 15-story office building with an adjacent public plaza. The Corporation leases all portions of Three UN Plaza to UNICEF as its world headquarters. The term of the UNICEF lease continues until July 2, 2026. The Corporation and the City have agreed that upon the expiration of the UNICEF lease in 2026 and subject to certain conditions being met, UNICEF will obtain ownership of Three UN Plaza without payment by UNICEF for the transfer.

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.

Operating and non-operating revenue
Revenue from leases is recognized as income when 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. Net income is recognized over the life of the UNICEF lease, which expires in July 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 under One UN Plaza is treated as a leasehold interest and its acquisition cost 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) net investments in capital asset: which consists 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: which consists of assets restricted for specific purposes by law or parties external to the Corporation; and (c) unrestricted: which consists of assets that are not classified either as invested in capital assets, net of related debt, or as restricted. 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 corporation under Section 501(c)(3) of the Internal Revenue Code.

Use of estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States 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.

Recent accounting pronouncements
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 did not 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 those activities should be reported. GASB 84 did not have an impact on the Corporation's financial statements.

GASB Statement No. 87, *Leases*, ("GASB 87") is effective for reporting periods beginning after December 15, 2019. The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Corporation has not completed the process of evaluating the impact of GASB 87 on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, ("GASB 88") is effective for reporting periods beginning after June 15, 2018. The objective of GASB 88 is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement also requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The adoption of GASB 88 required certain additional disclosures as disclosed in Note 5.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89") is effective for reporting periods beginning after December 15, 2019. The objectives of GASB 89 are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The Corporation has not completed the process of evaluating the impact of GASB 89 on the Corporation's financial statements.

GASB Statement No. 90, *Majority Equity Interests*, ("GASB 90") is effective for reporting periods beginning after December 15, 2018. GASB 90 clarifies the accounting and financial reporting requirements for a state or local government's majority equity interest in an organization that remains legally separate after acquisition. GASB 90 did not have an impact on the Corporation's financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*, ("GASB 91") is effective for reporting periods beginning after December 15, 2020. The primary objective of GASB 91 is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The Corporation has not completed the process of evaluating GASB 91 but does not expect it to have an impact on the Corporation's financial statements.

GASB Statement No. 92, *Omnibus 2020*, ("GASB 92") is generally effective for reporting periods beginning after June 15, 2020. The objective of GASB 92 is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The Corporation has not completed the process of evaluating GASB 92 but does not expect it 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 2019 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 by at least two of Moody's, S&P and Fitch as P-1, A-1+ and F-1, respectively; (ix) banker's acceptances maturing within ninety days rated by at least two of Moody's, S&P and Fitch as P-1, A-1+ and F-, respectively; 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.

Total restricted assets held by the Corporation at December 31, 2019 and 2018 included in the statements of net position were as follows:

	December 31, 2019		
	Cost	**Fair Value**	**Weighted average maturity (years) (a)**
U.S. Treasury securities:			
Treasury Notes	$ 45,878,700	$ 46,386,870	1.09
Total U.S. Treasury Securities	45,878,700	46,386,870	
Total Investments	45,878,700	46,386,870	
Cash and cash equivalents	1,886,692	1,886,692	
Total restricted assets	$ 47,765,392	$ 48,273,562	

	December 31, 2018		
	Cost	**Fair Value**	**Weighted average maturity (years) (a)**
U.S. Treasury securities:			
Treasury Bills	$ 57,429,187	$ 57,584,771	1.03
Total U.S. Treasury Securities	57,429,187	57,584,771	
Total Investments	57,429,187	57,584,771	
Cash and cash equivalents	3,946,929	3,946,929	
Total restricted assets	$ 61,376,116	$ 61,531,700	

(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, 2019 and 2018:

U.S. Treasury securities of $46,386,870 and $57,584,771 respectively, are valued using quoted market prices (Level 1 inputs).

4. Property and equipment

Property and equipment consisted of the following as of December 31, 2019 and 2018:

	Balance at January 1, 2019	Additions 2019	Deletions 2019	Balance at December 31, 2019
Land	$ 3,823,597	$ -	$ -	$ 3,823,597
Building and building improvements	173,928,679	2,449,622	-	176,378,301
Furniture, fixtures and equipment	1,523,209	52,190	-	1,575,399
	179,275,485	2,501,812	-	181,777,297
Less: accumulated depreciation and amortization	(120,581,217)	(6,953,969)	-	(127,535,186)
Property and equipment, net	$ 58,694,268	$ (4,452,157)	$ -	$ 54,242,111

	Balance at January 1, 2018	Additions 2018	Deletions 2018	Balance at December 31, 2018
Land	$ 3,823,597	$ -	$ -	$ 3,823,597
Building and building improvements	165,948,655	7,980,024	-	173,928,679
Furniture, fixtures and equipment	1,450,580	72,629	-	1,523,209
	171,222,832	8,052,653	-	179,275,485
Less: accumulated depreciation and amortization	(114,003,890)	(6,577,327)	-	(120,581,217)
Property and equipment, net	$ 57,218,942	$ 1,475,326	$ -	$ 58,694,268

5. Long-Term Debt

Long-term debt as of December 31, 2019 and 2018 was as follows:

	Balance at January 1, 2018	Additions/ Deletions 2018	Balance at December 31, 2018	Additions/ Deletions 2019	Balance at December 31, 2019
Bonds of 2009, Series A	$ 68,570,000	$ (6,260,000)	$ 62,310,000	$ (62,310,000)	-
Bonds of 2019, Series A	-	-	-	42,085,000	$ 42,085,000
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
	70,107,500	(6,260,000)	63,847,500	(20,225,000)	43,622,500
Add:					
Unamortized bond premium	2,082,694	(385,718)	1,696,976	3,274,308	4,971,284
	72,190,194	(6,645,718)	65,544,476	(16,950,692)	48,593,784
Other long-term liabilities	1,243,253	(382,540)	860,713	(382,540)	478,173
Less:					
Current portion of long-term debt	(6,260,000)	(305,000)	(6,565,000)	1,395,000	(5,170,000)
Current portion of other long-term obligations	(382,540)	-	(382,540)	-	(382,540)
Long-term obligations, net of current portion	$ 66,790,907	$ (7,333,258)	$ 59,457,649	$ (15,938,232)	$ 43,519,417

2019 Refunding Bonds, Series A

The 2019 Refunding Bonds, Series A ("2019 Bonds") were issued on April 11, 2019 in the principal amount of $42,085,000, at a net premium of $5,946,830, to refund the outstanding 2009 Bonds. The 2019 Bonds bear interest at a fixed rate of 5%, with annual maturities from July 1, 2020 through July 2026. The refunding of the 2009 Bonds will reduce total debt service payments by $17,473,325 and resulted in an economic gain of $6,382,403, being the difference in the present value of the debt service between the Corporation's 2009 Refunding Bonds, Series A (the "2009 Bonds") and the 2019 Bonds.

As a result of the refunding, the Corporation recognized a deferred inflow of resources of $1,933,456 for the deferred gain on refunding. This amount results from the difference in the carrying value of the refunded debt and the reacquisition price. This amount is deferred and amortized into interest expense over the shorter of the life of the refunded or refunding debt.

The 2019 Bonds were issued under an Amended and Restated Indenture of Trust dated as of April 11, 2019 (the "2019 Indenture"), between the Corporation and The Bank of New York Mellon, as

Trustee. The net proceeds of the 2019 Bonds were used, together with other funds of the Corporation, to redeem the 2009 Bonds on July 1, 2019. Amortization of the bond premium relating to the 2019 and 2009 Bonds was $975,548 and $104,388 for 2019, respectively, and $385,718 for the 2009 Bonds for 2018.

Interest on the 2019 Bonds is payable semiannually on January 1 and July 1 at an interest rate of 5.00%. Interest expense is reflected at a constant effective yield (including amortization of premium). The 2019 Bonds are subject to mandatory annual redemption of stated principal amounts from July 2020 through July 2026.

The 2019 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 $901,473 with respect to the 2019 Bonds.

The 2019 Indenture provides that in the event of a payment or other default as described thereunder, the Trustee may, and upon written request of the Bondholders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, with respect to which such event of default has happened, shall proceed, to protect and enforce the rights of the Trustee and, to the full extent that the Holders of the Bonds themselves might do, the rights of the Bondholders under the laws of the State of New York or under the 2019 Indenture, by such suits, actions, or proceedings in equity or at law, either for the specific performance of any covenant or contract contained therein or in aid or execution of any power therein granted or for any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce the rights aforesaid and without limiting the generality of the foregoing, as the Trustee, being advised by counsel, shall deemed most effectual to protect and insure the rights of the bondholders.

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 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 (collectively “the 2009 Indenture”). 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 of the Corporation, to redeem the 2004 Bonds in November 2009. Amortization of the bond premium relating to the 2009 Bonds was $104,388 for 2019 and $385,718 for 2018, respectively.

On July 1, 2019, all of the outstanding 2009 Bonds were redeemed from a portion of the net proceeds of the 2019 Bonds.

Interest on the 2009 Bonds was payable semiannually on January 1 and July 1 at various rates, ranging from 2.00% to 5.00%. Interest expense was reflected at a constant effective yield (including amortization of premium and issue costs). The 2009 Bonds were subject to mandatory annual redemption of stated principal amounts from July 2010 through July 2026.

The 2009 Bonds were 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 until maturity and payment of the principal amount of these bonds in 2025 and 2028, respectively. Debt service on these bonds is senior to that of the 2019 Bonds and was senior to that of the 2009 Bonds.

Maturities of Long-Term Debt

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

	Principal	Interest	Total
Year ending December 31,			
2020	$ 5,170,000	$ 2,227,250	$ 7,397,250
2021	5,425,000	1,968,750	7,393,750
2022	5,705,000	1,697,500	7,402,500
2023	5,985,000	1,412,250	7,397,250
2024	6,280,000	1,113,000	7,393,000
2025 to 2028 *	15,057,500	1,214,250	16,271,750
	$ 43,622,500	$ 9,633,000	$ 53,255,500

* Represents total amounts for the four-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 all of 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 2019 Bonds, was subordinate to debt service on the 2009 Bonds prior to their redemption in July 2019 and was subordinate to debt service on the 2004 Bonds prior to their redemption in November 2009. The City Leases include the following provisions:

- 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 to the City 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. Total base rent under the City Leases was $1,773,900 and $1,728,260 for the years ended December 31, 2019 and 2018, respectively.

- Rent is payable to the City 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 general, the 1981 Lease defines Consolidated Surplus as revenues from the Corporation's operations during the year, minus the amounts paid, set aside or placed in reserve in connection with the Corporation's operations and to comply with the Corporation's obligations, including debt service and other requirements under the Corporation's financing documents. Under the 1981 Lease, specific approval of the Board of Directors is required to establish reserves not mandated by the Corporation's financing documents and not required to pay other current obligations.

- For the year ended December 31, 2019, Consolidated Surplus under the 1981 Lease was $11,944,340, ninety percent of which, or $10,749,906, is payable to the City as additional rent. No reserve was established by the Board of Directors from the Corporation's 2019 revenues as permitted under the 1981 Lease.

- In March 2019, for the year ended December 31, 2018, the Board of Directors established a reserve from the Corporation's 2018 revenues of $7,695,588, as permitted under the 1981 Lease. The reserve for 2018 was established to pay costs for expected future capital and tenant improvement projects at One and Two UN Plaza, including any such costs related to extensions beyond March 2023 of the One UN Plaza and Two UN Plaza leases from the Corporation to the UN, as referred to in this Note 6 below. As a result, there was no Consolidated Surplus for the year ended December 31, 2018, and no additional rent was payable to the City for 2018.

Phase II Ground Lease

The Corporation holds a 99-year ground leasehold expiring in 2079 from a private party on the land underlying Phase II, with annual rental payments of $250,000 payable by the Corporation through 2025. Annual rental payments under the ground lease after 2025 will be increased based on changes in the Consumer Price Index since February 1, 2014. The Corporation has an option exercisable at any time between August 1, 2020 and July 31, 2025 to purchase the land underlying Phase II 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, 2019, aggregate future minimum rentals under the ground lease approximated $15,000,000, assuming the purchase option is not exercised by the Corporation.

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 bank tenant (the "One UN Plaza Leases"). The One UN Plaza lease from the Corporation to the UN expires on March 31, 2023. The remaining terms of other leases at One UN Plaza range from approximately three to five years (assuming no exercise of tenant renewal options). Fixed minimum rents under the One UN Plaza Leases, excluding operating expense escalations, will be approximately $12.5 million in 2020, $12.1 million in 2021, $12.0 million in 2022, $3.8 million in 2023 and $1.1 million in 2024.

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. The remaining terms of other leases at Two UN Plaza range from approximately one to four years and three months. Fixed minimum rents under the Two UN Plaza leases, excluding operating expense escalations, will be approximately $12.3 million in 2020, $12.3 million in 2021, $12.3 million in 2022, and $2.9 million in 2023.

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 the City of New York, 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 (excluding operating expense escalations) in 2019 and for each year through the lease termination date in 2026 will be approximately $6.7 million.

Net investment in capital lease (with UNICEF)
The components of the net investment in the capital lease with UNICEF as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Total minimum lease payments to be received	$ 42,399,355	$ 48,922,332
Less: Unearned income	(16,640,659)	(21,169,552)
Less: Current portion of net investment in capital lease	(2,361,479)	(1,994,085)
Total net investment in capital lease (long-term)	$ 23,397,217	$ 25,758,695

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, with all contributions thereunder being immediately vested. 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 $159,335 and $148,483 for the years ended December 31, 2019 and 2018, 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 $90,875 and $80,539 for the years ended December 31, 2019 and 2018, respectively.

8. Contingencies

Settlement Agreement with Hotel Operator
The Corporation and the Hotel Operator are parties to a November 30, 2019 Settlement Agreement. The Settlement Agreement provides for the Corporation to pay up to $3 million of the cost of the replacement by the Hotel Operator of piping for air conditioning that serves the hotel portion of One UN Plaza. The Corporation anticipates that a payment of $3 million will made to the Hotel Operator in April or May of 2020 under the Settlement Agreement.

Public Health Challenges and COVID-19
In March 2020, the World Health Organization declared a pandemic due to the outbreak of a novel coronavirus ("COVID-19"), which continues to spread in the United States and globally. The Corporation could be materially and adversely affected by the risks, or the public perception of the risks, related to the outbreak of COVID-19, as well as any other epidemic, pandemic or other public health crisis. The ultimate extent of the impact of COVID-19 or any other public health crisis on the Corporation's financial condition and results of operations will depend on future developments which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 or any other public health crisis and the actions taken to prevent or contain any further spread of COVID-19, among others. Accordingly, the Corporation cannot predict the extent to which its financial condition and results of operations will be affected.

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, 2019

	Phase I		Phase II		Phase III		Total	
Office Space								
Revenues and income from capital lease	$ 17,946,954		$ 19,497,490		$ 8,666,595		$ 46,111,039	
Operating expenses	(7,883,316)	$ 10,063,638	(6,357,271)	$ 13,140,219	(4,671,490)	$ 3,995,105	(18,912,077)	$ 27,198,962
Fee Income-Tenant Alteration Work						684,422		684,422
Other Income (Note A)				1,431,872				1,431,872
Interest Income		507,590		507,590		253,795		1,268,975
Gross Revenues		10,571,228		15,079,681		4,933,322		30,584,231
General and Administrative Expenses		(957,658)		(952,837)		(479,853)		(2,390,348)
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				(1,563,038)				(1,563,038)
Net Revenues (Note B)		9,613,570		12,190,806		4,453,469		26,257,845
Base Rent to The City of New York (Note C)		(99,628)		(1,193,272)		(481,000)		(1,773,900)
Debt Service Requirements (Note D)		(3,099,905)		(3,494,826)		(1,944,874)		(8,539,605)
Net Revenues in Excess of Debt Service Requirements		$ 6,414,037		$ 7,502,708		$ 2,027,595		$ 15,944,340

See Independent Auditors' Report and Notes to Supplemental Schedule.

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 2019 Bonds and 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 and are allocated among Phase I, Phase II and Phase III in accordance with the provision of the City Leases.

D. Debt Service Requirements:

Debt service requirements include interest and principal payments on the 2019 Bonds (pro rata for a portion of after issuance of those Bonds) and on the 2009 Bonds (pro rata for the portion of the 2019).