

# **United Nations Development Corporation**

**Financial Statements**

**For the years ended December 31, 2010 and 2009**

**and Supplemental Schedule**

**For the year ended December 31, 2010**

# United Nations Development Corporation

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
United Nations Development Corporation

We have audited the accompanying statements of net assets of the United Nations Development Corporation (the "Corporation"), a public benefit corporation of the State of New York, as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The supplemental schedule of Phases I, II, and III net revenues in excess of debt service requirements for the year ended December 31, 2010 on page 19, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Marks Paneth & Shron LLP*

New York, New York  
March 30, 2011

# United Nations Development Corporation

## Management's Discussion and Analysis

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### Overview of the Financial Statements

The following is a discussion and analysis of the financial performance and activity of the United Nations Development Corporation (the "Corporation") for the years ended December 31, 2010 and 2009. It should be read in conjunction with the Corporation's basic financial statements and notes to the financial statements.

The annual financial statements consist of three parts: (1) this management's discussion and analysis, (2) the basic financial statements, and (3) the notes to the financial statements.

The basic financial statements of the Corporation, which include the statements of net assets, the statements of revenues, expenses, and changes in net assets and the statements of cash flows, are presented in accordance with Governmental Accounting Standards Board Statement No. 34, as amended. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

### Statements of Net Assets

The statements of net assets present the financial position of the Corporation at the end of each year. Net assets represent the difference between the Corporation's total assets and total liabilities. A summary comparison of the Corporation's assets, liabilities and net assets at December 31, 2010, 2009 and 2008 is shown below.

<b>Assets:</b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Current assets	\$ 10,883,508	\$ 9,799,354	\$ 9,134,766
Restricted assets	34,436,740	32,035,592	44,401,759
Property and equipment, net	57,105,685	57,774,468	63,825,394
Other noncurrent assets	38,253,381	39,089,449	37,211,019
<b>Total Assets</b>	<b><u>\$ 140,679,314</u></b>	<b><u>\$ 138,698,863</u></b>	<b><u>\$ 154,572,938</u></b>
<b>Liabilities:</b>			
Total current liabilities	\$ 9,723,132	\$ 14,434,835	\$ 25,098,790
Long-term debt, net of current portion	108,556,257	113,542,015	122,764,595
<b>Total Liabilities</b>	<b><u>118,279,389</u></b>	<b><u>127,976,850</u></b>	<b><u>147,863,385</u></b>
<b>Net Assets</b>	<b><u>22,399,925</u></b>	<b><u>10,722,013</u></b>	<b><u>6,709,553</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 140,679,314</u></b>	<b><u>\$ 138,698,863</u></b>	<b><u>\$ 154,572,938</u></b>

# United Nations Development Corporation

## Management's Discussion and Analysis

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### Fiscal Year 2010 vs. 2009

At December 31, 2010, the Corporation had total assets of \$140.7 million, an increase of \$2.0 million from 2009. The increase in total assets is primarily attributable to an increase of \$2.4 million in restricted assets and an increase of \$1.1 million in current assets, partially offset by a decrease of \$668,000 in net property and equipment and a decrease of \$836,000 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 reflects an increase in the debt service fund resulting from a \$1.6 million increase in accrued interest payable on the Corporation's bonds due to the issuance of the 2009 Bonds in October 2009. Other noncurrent assets for 2010 and 2009 include \$35.3 million and \$35.8 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2010 were \$9.7 million, a decrease of \$4.7 million from 2009, due primarily to a decrease of \$4.9 million in rent payable to the City under the Corporation's leases as described in Note 5 and a decrease of \$1.5 million in the current portion of long-term debt, offset by an increase of \$1.6 million in accrued interest payable.

### Fiscal Year 2009 vs. 2008

At December 31, 2009, the Corporation had total assets of \$138.7 million, a decrease of \$15.9 million from 2008. This decrease is primarily attributable to: (i) a decrease of \$12.4 million in restricted assets and (ii) a decrease of \$6.1 million in net property and equipment, partially offset by (iii) an increase of \$1.9 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"), and 2004 Refunding Bonds, Series A (Senior Lien) (the "2004 Bonds"). The decrease in restricted assets reflects the reduction in required fund balances resulting from: (i) a \$9.9 million decrease in additional rent payable to The City of New York (the "City") for 2009 and (ii) a \$2.3 million decrease in accrued interest payable on the Corporation's bonds due to the issuance of the 2009 Bonds in October 2009 and subsequent redemption of the 2004 Bonds in November 2009. Other noncurrent assets for 2009 and 2008 include \$35.8 million and \$33.4 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza. The increase in the net investment in capital lease is attributable to UNICEF leasing additional space at Three UN Plaza as of October 1, 2009.

Current liabilities at December 31, 2009 were \$14.4 million, a decrease of \$10.7 million from 2008, due primarily to a decrease of \$9.9 million in rent payable to the City under the Corporation's leases for 2009 as compared to 2008, a reduction of \$2.3 million in accrued interest payable on the Corporation's bonds offset by an increase of \$1.9 million in the current portion of long-term debt.

# United Nations Development Corporation

## Management's Discussion and Analysis

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### Statements of Revenues, Expenses and Changes in Net Assets

The following is a summary of the Corporation's revenues, expenses, and changes in net assets for the years ended December 31, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 vs. 2009 (%)</u>	<u>2009 vs. 2008 (%)</u>
<b>Total operating revenues</b>	\$ 40,794,083	\$ 38,663,482	\$ 37,223,329	6%	4%
<b>Total operating expenses</b>	<u>24,492,306</u>	<u>28,216,087</u>	<u>37,605,311</u>	-13%	-25%
<b>Operating (loss) income</b>	<u>16,301,777</u>	<u>10,447,395</u>	<u>(381,982)</u>		
<b>Nonoperating revenues (expenses):</b>					
Interest income	151,263	125,610	1,074,449	20%	-88%
Interest expense	(4,873,791)	(6,000,566)	(6,394,864)	-19%	-6%
Write-off of Development-in-Progress	-	(559,979)	(500,000)	-	12%
Unrealized gain on restricted assets	98,663	-	-	-	-
<b>Total nonoperating expenses</b>	<u>(4,623,865)</u>	<u>(6,434,935)</u>	<u>(5,820,415)</u>	-28%	11%
<b>Change in net assets</b>	11,677,912	4,012,460	(6,202,397)		
Net assets, beginning of year	<u>10,722,013</u>	<u>6,709,553</u>	<u>12,911,950</u>	60%	-48%
Net assets, end of year	<u>\$ 22,399,925</u>	<u>\$ 10,722,013</u>	<u>\$ 6,709,553</u>	109%	60%

**Operating Revenues.** Operating revenues for the years ended December 31, 2010, 2009 and 2008 totaled \$40.8 million, \$38.7 million and \$37.2 million, respectively, representing increases of 6% from 2009 to 2010 and 4% from 2008 to 2009. The increases in operating revenues over these periods were due primarily to increases in base rent and operating expense escalation payments by tenants under certain of the Corporation's leases.

The office space in One and Two UN Plaza is leased primarily 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.** Operating expenses for the years ended December 31, 2010 and 2009 totaled \$24.5 million and \$28.2 million, respectively, a decrease of \$3.7 million or 13%. This decrease is mainly due to a decrease of \$4.7 million in rent and real estate taxes to the City .

Operating expenses for the years ended December 31, 2009 and 2008 totaled \$28.2 million and \$37.6 million, respectively, a decrease of \$9.4 million or 25%. This decrease reflects a lower amount of \$4.9 million in additional rent payable to the City for 2009 under the Corporation's leases, compared to \$14.7 million payable for 2008.

**Nonoperating Expenses.** Total nonoperating expenses for the years ended December 31, 2010, 2009 and 2008 were \$4.6 million, \$6.4 million and \$5.8 million, respectively, and reflect the write-off of development-in-progress costs in relation to the UN Consolidation Project described in Note 2 of

# **United Nations Development Corporation**

## **Management's Discussion and Analysis**

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\$559,979 for 2009 and \$500,000 for 2008, which were not expected to have ongoing value to the Corporation. There were no write-offs of remaining development-in-progress costs for 2010.

Interest income in 2009 was \$125,610, a decrease of approximately \$1.0 million compared to 2008 due to lower interest rates paid on investments in 2009 as compared to 2008.

# United Nations Development Corporation

## Statements of Net Assets

	As of December 31,	
	<u>2010</u>	<u>2009</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 6,989,170	\$ 5,964,010
Accounts receivable, less allowance for doubtful accounts of \$3,700 in 2010 and 2009	871,422	742,384
Current portion of net investment in capital lease (Note 5)	521,693	441,706
Prepaid expenses and other assets, net	2,501,223	2,651,254
	<u>10,883,508</u>	<u>9,799,354</u>
<b>Total current assets</b>	10,883,508	9,799,354
Restricted assets (Note 3)	34,436,740	32,035,592
Net investment in capital lease, less current portion (Note 5)	35,286,919	35,808,612
Long-term receivable (Note 2)	1,162,480	1,384,943
Unamortized bond issuance costs (Note 2)	1,803,982	1,895,894
Property and equipment, net (Note 2)	57,105,685	57,774,468
	<u>140,679,314</u>	<u>138,698,863</u>
<b>Total assets</b>	\$ 140,679,314	\$ 138,698,863
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,440,959	\$ 2,349,873
Security deposits payable and deferred revenues	160,804	133,863
	<u>2,601,763</u>	<u>2,483,736</u>
Current liabilities (payable from restricted assets):		
Rent payable to the City of New York	-	4,891,973
Accrued interest payable	2,461,369	869,126
Current portion of long-term debt	4,660,000	6,190,000
	<u>7,121,369</u>	<u>11,951,099</u>
<b>Total current liabilities</b>	9,723,132	14,434,835
Long-term debt, net of current portion (Note 4)	108,556,257	113,542,015
	<u>118,279,389</u>	<u>127,976,850</u>
<b>Total liabilities</b>	118,279,389	127,976,850
<b>Net assets:</b>		
Invested in capital assets, net of related debt	(9,844,684)	(15,078,055)
Restricted	9,444,415	8,752,996
Unrestricted	22,800,194	17,047,072
	<u>22,399,925</u>	<u>10,722,013</u>
<b>Total net assets</b>	22,399,925	10,722,013
<b>Total liabilities and net assets</b>	<u>\$ 140,679,314</u>	<u>\$ 138,698,863</u>

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

# United Nations Development Corporation

## Statements of Revenues, Expenses, and Changes in Net Assets

	For the years ended December 31,	
	<u>2010</u>	<u>2009</u>
Operating revenues:		
Office space	\$ 29,940,438	\$ 28,705,215
Capital lease	9,328,509	8,529,820
Other income and residential apartments	1,525,136	1,428,447
	<u>40,794,083</u>	<u>38,663,482</u>
<b>Total operating revenues</b>		
Operating expenses:		
Administrative salaries and employee benefits	1,801,862	1,705,588
Property manager's reimbursable salaries and employee benefits	2,368,434	2,288,742
Other operating costs	12,834,058	11,957,772
Depreciation and amortization (Note 2)	4,430,950	4,484,995
Rent and real estate taxes (Note 5)	2,833,552	7,572,162
Management fees	82,045	79,731
Professional fees	141,405	127,097
	<u>24,492,306</u>	<u>28,216,087</u>
<b>Total operating expenses</b>		
Operating income	<u>16,301,777</u>	<u>10,447,395</u>
Nonoperating revenues (expenses):		
Interest income	151,263	125,610
Interest expense (Note 4)	(4,873,791)	(6,000,566)
Write-off of development-in-progress costs (Note 2)	-	(559,979)
Unrealized gain on restricted assets (Note 3)	98,663	-
	<u>(4,623,865)</u>	<u>(6,434,935)</u>
<b>Total nonoperating (expenses)</b>		
<b>Change in net assets</b>	11,677,912	4,012,460
Net assets, beginning of year	<u>10,722,013</u>	<u>6,709,553</u>
Net assets, end of year	<u>\$ 22,399,925</u>	<u>\$ 10,722,013</u>

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

# United Nations Development Corporation

## Statements of Cash Flows

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
Cash flows from operating activities		
Receipts from tenants	\$ 40,665,044	\$ 39,111,286
Payments to suppliers	(12,559,790)	(12,760,285)
Payments for rent and real estate taxes	(7,808,656)	(17,484,443)
Payments to employees for salaries and benefits	(4,132,401)	(3,964,470)
Other payments	(3,583,369)	(8,149,283)
<b>Net cash provided by (used in) operating activities</b>	<b><u>12,580,828</u></b>	<b><u>(3,247,195)</u></b>
Cash flows from financing activities		
(Increase) decrease in restricted assets	(1,638,316)	12,154,036
Proceeds from issuance of long-term debt at a premium	-	116,972,093
Payment of bond issuance costs	-	(1,919,426)
Repayments of principal of long-term debt	(6,190,000)	(121,490,000)
<b>Net cash (used in) provided by financing activities</b>	<b><u>(7,828,316)</u></b>	<b><u>5,716,703</u></b>
Cash flows from investing activities		
Capital expenditures for operating properties	(3,727,352)	(1,803,805)
<b>Net cash used in investing activities</b>	<b><u>(3,727,352)</u></b>	<b><u>(1,803,805)</u></b>
Net increase in cash and cash equivalents	1,025,160	665,703
Cash and cash equivalents, beginning of year	<u>5,964,010</u>	<u>5,298,307</u>
Cash and cash equivalents, end of year	<b><u>\$ 6,989,170</u></b>	<b><u>\$ 5,964,010</u></b>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 11,677,912	\$ 4,012,460
Depreciation and amortization	4,197,103	4,692,823
Unrealized gain on restricted assets	(98,663)	-
Partial write-off of development-in-progress	-	559,979
(Increase) decrease in current assets:		
Accounts and accrued interest receivable, net	(129,038)	81,802
Prepaid expenses and other assets	115,217	(25,304)
Increase (decrease) in current liabilities:		
Accounts payable, accrued expenses and interest payable	(3,208,644)	(12,535,103)
Security deposits payable and deferred revenues	26,941	(33,852)
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ 12,580,828</u></b>	<b><u>\$ (3,247,195)</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Non-cash investing and financing activities:		
Property and equipment converted to net investment in capital lease	<u>\$ -</u>	<u>\$ 2,833,110</u>

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

# United Nations Development Corporation

## Notes to Financial Statements

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### 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-related activities within a defined “United Nations development district” in the vicinity of the United Nations 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. Effective July 23, 1997, One UN Plaza was converted to a condominium structure 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 primarily to the United Nations and foreign missions to the United Nations.

#### Two United Nations Plaza

In 1984, the Corporation completed construction of a 40-story office building-hotel at Two United Nations Plaza (“Phase II” or “Two UN Plaza”). Effective July 23, 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 primarily to the United Nations and foreign missions to the United Nations.

#### 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, including, as of October 1, 2009, two floors of the building that were converted from residential apartments to office space.

### 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, as prescribed by the Governmental Accounting Standards Board (“GASB”). GASB is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

The Corporation has adopted GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting” and has elected to not apply pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

# United Nations Development Corporation

## Notes to Financial Statements

### 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.

### 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 this capital lease, which expires in 2026.

### Long-term receivables

As provided in its lease at Three UN Plaza, UNICEF reimburses the Corporation for its expenditures on capital improvements over a period of ten years or less. The unreimbursed portion of such expenditures is classified as long-term receivables.

### Property and equipment

Property and equipment consisted of the following as of December 31, 2009 and 2010:

	Balance at January 1, <u>2009</u>	Additions <u>2009</u>	Deletion <u>2009</u>	Balance at December 31, <u>2009</u>
Land	\$ 3,979,597	-	\$ (156,000)	\$ 3,823,597
Building and building improvements	130,321,536	\$ 1,791,312	(6,860,642)	125,252,206
Furniture, fixtures and equipment	1,236,161	12,493	(72,645)	1,176,009
Development-in-progress	<u>965,679</u>	<u>-</u>	<u>(559,979)</u>	<u>405,700</u>
	136,502,973	1,803,805	(7,649,266)	130,657,512
Less: accumulated depreciation and amortization	<u>(72,677,579)</u>	<u>(4,461,642)</u>	<u>4,256,177</u>	<u>(72,883,044)</u>
Property and equipment, net	<u><u>\$ 63,825,394</u></u>	<u><u>\$ (2,657,837)</u></u>	<u><u>\$ (3,393,089)</u></u>	<u><u>\$ 57,774,468</u></u>

	Balance at January 1, <u>2010</u>	Additions <u>2010</u>	Deletions <u>2010</u>	Balance at December 31, <u>2010</u>
Land	\$ 3,823,597	-	-	\$ 3,823,597
Building and building improvements	125,252,206	\$ 3,664,501	-	128,916,707
Furniture, fixtures and equipment	1,176,009	62,851	-	1,238,860
Development-in-progress	<u>405,700</u>	<u>-</u>	<u>-</u>	<u>405,700</u>
	130,657,512	3,727,352	-	134,384,864
Less: accumulated depreciation and amortization	<u>(72,883,044)</u>	<u>(4,396,135)</u>	<u>-</u>	<u>(77,279,179)</u>
Property and equipment, net	<u><u>\$ 57,774,468</u></u>	<u><u>\$ (668,783)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 57,105,685</u></u>

# United Nations Development Corporation

## Notes to Financial Statements

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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.

In 2002, the Corporation began planning and preliminary design work for a proposed office building on the east side of First Avenue between 41<sup>st</sup> and 42<sup>nd</sup> Streets (the "UN Consolidation Project") to be occupied by United Nations offices, including those relocated from less optimally located buildings in midtown Manhattan, possibly including One and Two UN Plaza. Although that work was suspended in early 2005, in 2010 the Corporation, at the request of The City of New York (the "City") and the United Nations, continued discussions with both concerning possible construction of the UN Consolidation Project.

Included in property and equipment are development-in-progress costs relating to certain engineering, surveying and advisory work for the UN Consolidation Project of \$405,700 as of December 31, 2010 and 2009, respectively. Although discussions are continuing and work on the UN Consolidation Project could recommence at a later date, the Corporation wrote off \$559,979 in development-in-progress costs for 2009, because these costs may not have ongoing value to the Corporation due to the passage of time since work was suspended.

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 5).

### **Bond issuance costs**

The Corporation capitalizes costs incurred in connection with issuance of its long-term debt. Amortization of these issuance costs and any associated adjustment of interest expense related to the Corporation's long-term debt is computed by the effective interest method over the term of the related debt.

### **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 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 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

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### 3. Investments and restricted assets

All investments are carried at fair value based on quoted market prices, in accordance with GASB Statement No. 31 “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” Certain accounts are funded by the Corporation as required under the Indenture for the 2009 Bonds (as such terms are defined in Note 4). Such accounts are classified as restricted assets and consist primarily of investments in U.S. Treasury Securities and federal agency securities rated at least Aaa/P-1 by Moody’s Investor Service. 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, 2010 and 2009 included in the balance sheet account are as follows:

		<b>December 31, 2010</b>		
		<u>Cost</u>	<u>Fair Value</u>	<u>Weighted average maturity (years) (a)</u>
U.S. Treasury securities:				
Treasury Bills		\$ 2,002,043	\$ 2,002,330	0.25
Treasury Notes		6,969,839	7,035,573	1.46
	Total U.S. Treasury Securities	<u>8,971,882</u>	<u>9,037,903</u>	
Federal agency securities:				
Federal Home Loan Mortgage Corporation Discount Notes		13,612,627	13,613,793	0.37
Federal National Mortgage Association Discount Notes		4,825,970	4,826,331	0.43
Federal National Mortgage Association Global Notes		2,891,998	2,905,326	1.66
Other		3,541,559	3,559,346	0.95
	Total Federal agency securities	<u>24,872,154</u>	<u>24,904,796</u>	
	Total Investments	33,844,036	33,942,699	
Cash and cash equivalents		494,041	494,041	
Total restricted assets		<u>\$ 34,338,077</u>	<u>\$ 34,436,740</u>	
		<b>December 31, 2009</b>		
		<u>Cost</u>	<u>Fair Value</u>	<u>Weighted average maturity (years) (a)</u>
U.S. Treasury bills:				
Treasury Bills		\$ 30,299,440	\$ 30,299,440	0.25
	Total Investments	30,299,440	30,299,440	
Cash and cash equivalents		1,736,152	1,736,152	
Total restricted assets		<u>\$ 32,035,592</u>	<u>\$ 32,035,592</u>	

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

# United Nations Development Corporation

## Notes to Financial Statements

### 4. Long-Term Debt

Long-term debt as of December 31, 2009 and 2010 is as follows:

	Balance at January 1, <u>2009</u>	Additions/ Deletions <u>2009</u>	Balance at December 31, <u>2009</u>	Additions/ Deletions <u>2010</u>	Balance at December 31, <u>2010</u>
Bonds of 2004, Series A	\$ 121,490,000	\$ (121,490,000)	-	-	-
Bonds of 2009, Series A	-	111,475,000	\$ 111,475,000	\$ (6,190,000)	\$ 105,285,000
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>123,027,500</u>	<u>(10,015,000)</u>	<u>113,012,500</u>	<u>(6,190,000)</u>	<u>106,822,500</u>
Add:					
Unamortized bond premium	4,022,095	1,407,603	5,429,698	(263,228)	5,166,470
Unamortized gain on bond refunding	-	1,289,817	1,289,817	(62,530)	1,227,287
	<u>127,049,595</u>	<u>(7,317,580)</u>	<u>119,732,015</u>	<u>(6,515,758)</u>	<u>113,216,257</u>
Less: Current portion of long-term debt	<u>(4,285,000)</u>	<u>(1,905,000)</u>	<u>(6,190,000)</u>	<u>1,530,000</u>	<u>(4,660,000)</u>
Long-term debt, net of current portion	<u>\$ 122,764,595</u>	<u>\$ (9,222,580)</u>	<u>\$ 113,542,015</u>	<u>\$ (4,985,758)</u>	<u>\$ 108,556,257</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 \$263,228 for 2010 and \$67,395 for 2009, 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 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.

# United Nations Development Corporation

## Notes to Financial Statements

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The Corporation incurred issuance costs of \$1,919,426 with respect to the 2009 Bonds. Amortization of the bond issuance costs was \$91,912 for 2010 and \$23,532 for 2009, respectively.

### 2004 Refunding Bonds, Series A

The Corporation's 2004 Refunding Bonds, Series A (Senior Lien) (the "2004 Bonds") were issued on January 29, 2004 under the Indenture, as amended and supplemented through January 29, 2004. The 2004 Bonds were issued at a premium of \$4,619,232 with a face amount of \$126,720,000 and the net proceeds were used to redeem the Bonds of 1997 B & C. Amortization of the bond premium relating to the 2004 Bonds was \$205,648 for 2009.

In November 2009, all the outstanding Bonds of 2004 were redeemed from a portion of the net proceeds of the 2009 Bonds.

The Corporation incurred issuance costs amounting to \$2,411,217 in connection with the issuance of the 2004 Bonds. Amortization of issuance costs relating to the 2004 Bonds was \$107,347 for 2009.

Interest on the 2004 Bonds was payable semiannually on January 1 and July 1 at various rates, ranging from 4.00% to 5.25%. Interest expense was reflected at a constant effective yield (including amortization of premium and issue costs). The 2004 Bonds were subject to mandatory annual redemption of principal in increasing amounts from July 2007 through July 2026.

The 2004 Bonds were collateralized by net revenues from Phases I, II and III and amounts in the funds and accounts held by the Trustee

### 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>
<b>Year ending December 31,</b>			
2011	\$ 4,660,000	\$ 5,045,738	\$ 9,705,738
2012	4,800,000	4,905,937	9,705,937
2013	4,985,000	4,713,938	9,698,938
2014	5,190,000	4,514,887	9,704,887
2015	5,435,000	4,270,888	9,705,888
2016 to 2020 *	31,360,000	17,149,788	48,509,788
2021 to 2025 *	40,980,000	8,793,200	49,773,200
2026 to 2028	9,412,500	525,250	9,937,750
	<u>\$ 106,822,500</u>	<u>\$ 49,919,626</u>	<u>\$ 156,742,126</u>

\* Represents total amounts for the five-year period.

# United Nations Development Corporation

## Notes to Financial Statements

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### 5. 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:

- 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 United Nations, missions to the United Nations 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 \$1,293,126 and \$1,260,216 for the years ended December 31, 2010 and 2009, 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 2011, in connection with the year ended December 31, 2010 and as permitted under the 1981 Lease, the Board of Directors established a reserve from the Corporation’s 2010 revenues of \$8,616,833 to pay planning and design costs for the UN Consolidation Project. Consequently, there was no Consolidated Surplus for the year ended December 31, 2010 and no additional rent was payable to the City for 2010. If State legislation necessary to authorize the Corporation to undertake the UN Consolidation Project is not enacted by June 30, 2011, then the Corporation may be required under certain circumstances to release such reserve and to pay additional rent to the City under the 1981 Lease equal to ninety percent of the released amount.

For the year ended December 31, 2009, Consolidated Surplus under the 1981 Lease was \$5,435,525, ninety percent of which, or \$4,891,973, was payable to the City as additional rent. Consolidated Surplus for 2009 consisted entirely of amounts from the Corporation’s 2009 revenues.

# United Nations Development Corporation

## Notes to Financial Statements

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### **Phase II Ground Lease**

The Corporation holds a 99-year leasehold from a private party on the land underlying Phase II which expires in 2079. 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 4. At December 31, 2010, aggregate future minimum rentals under this ground lease approximated \$17,250,000, assuming the purchase option is not exercised.

### **As Lessor:**

#### **Phase I**

The office space in One UN Plaza is leased principally to the United Nations and missions to the United Nations, and a portion of the ground floor of the building is leased to a retail tenant. The lease with the United Nations at One UN Plaza expires on March 31, 2018, with a renewal option exercisable by the United Nations to extend the term for five years to March 31, 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 by tenants of renewal options). Fixed minimum rents under the One UN Plaza leases, excluding operating expense escalations, will be approximately \$10.5 million in 2011, \$10.5 million in 2012, \$11.1 million in 2013, \$11.3 million in 2014 and \$11.4 million in 2015.

#### **Phase II**

The office space in Two UN Plaza is leased principally to the United Nations and missions to the United Nations. The lease with the United Nations at Two UN Plaza expires on March 31, 2018, with a renewal option exercisable by the United Nations to extend the term for five years to March 31, 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 by tenants of renewal options). Fixed minimum rents under the Two UN Plaza leases, excluding operating expense escalations, will be approximately \$10.7 million in 2011, \$10.3 million in 2012, \$10.6 million in 2013, \$10.5 million in 2014 and \$10.4 million in 2015.

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.

# United Nations Development Corporation

## Notes to Financial Statements

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In October 2009, the portion of Three UN Plaza formerly leased by the Corporation as residential apartments was added to the UNICEF lease. UNICEF's annual base rent, exclusive of operating expense escalations, was \$6.0 million in 2009 and \$6.7 million in 2010. Annual base rent in 2011 and for each year through the lease termination date in 2026 will be \$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, 2010 and 2009 are as follows:

	<b>December 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
Total minimum lease payments to be received	\$ 101,106,153	\$ 107,629,131
Less: Unearned income	(65,297,541)	(71,378,813)
Less: Current portion of net investment in capital lease	<u>(521,693)</u>	<u>(441,706)</u>
 Total net investment in capital lease (long-term)	 <u>\$ 35,286,919</u>	 <u>\$ 35,808,612</u>

### 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 \$160,624 and \$137,518 for the years ended December 31, 2010 and 2009, respectively.

The Corporation also funds a deferred compensation plan for employees under Section 457 of the Internal Revenue Code. Contributions to the 457 Plan were \$75,512 and \$63,017 for the years ended December 31, 2010 and 2009, respectively.



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

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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 2010 on the 2009 Bonds. The 2009 Bonds were issued in October 2009, with interest and principal payments commencing in 2010 on January 1st and July 1st, respectively.