United Nations Development Corporation

Financial Statements
For the years ended December 31, 2011 and 2010
and Supplemental Schedule
For the year ended December 31, 2011

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants
IT ALL ADDS UP.

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 2 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Accounting Standards Board, who 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 audit 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.

Our audits were made for the purpose of forming an opinion on the financial statements as a whole. The other supplementary information (shown on pages 18 to 19) is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such 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 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 financial statements as a whole.

Marks Paneth & Shron LLP

New York, NY
March 30, 2012

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, 2011 and 2010. 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, 2011, 2010 and 2009 is shown below.

Assets:	**2011**	**2010**	**2009**
Current assets	$ 11,893,209	$ 10,883,508	$ 9,799,354
Restricted assets	39,431,340	34,436,740	32,035,592
Property and equipment, net	61,092,468	57,105,685	57,774,468
Other noncurrent assets	37,260,721	38,253,381	39,089,449
Total Assets	$ 149,677,738	$ 140,679,314	$ 138,698,863
Liabilities:			
Total current liabilities	$ 9,286,983	$ 9,723,132	$ 14,434,835
Long-term obligations, net of current portion	106,442,715	108,556,257	113,542,015
Total Liabilities	115,729,698	118,279,389	127,976,850
Net Assets	33,948,040	22,399,925	10,722,013
Total Liabilities and Net Assets	$ 149,677,738	$ 140,679,314	$ 138,698,863

Fiscal Year 2011 vs. 2010

At December 31, 2011, the Corporation had total assets of $149.7 million, an increase of $9.0 million from 2010. The increase in total assets is primarily attributable to an increase of $1.0 million in current assets, an increase of $5.0 million in restricted assets, an increase of $4.0 million in property and equipment and a decrease of $1.0 million in other noncurrent assets. Restricted assets represent funds held in investment accounts as required by the indenture relating to the Corporation's 2009 Refunding Bonds, Series A (the "2009 Bonds"). The increase in restricted assets for 2011 reflects the reserve of $5,312,694 in 2011 for planning and design costs of the Consolidation Project as described in Note 6. Other noncurrent assets for 2011 and 2010 include $34.7 million and $35.3 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2011 were $9.3 million, a decrease of $436,000 from 2010, reflecting a reduction in accrued expenses.

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. 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, primarily due to a decrease of $4.9 million in rent payable to the City under the Corporation's leases as described in Note 6 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.

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, 2011, 2010 and 2009.

	2011	2010	2009	2011 vs. 2010 (%)	2010 vs. 2009 (%)
Total operating revenues	$ 40,696,305	$ 40,794,083	$ 38,663,482	0%	6%
Total operating expenses	24,626,759	24,492,306	28,216,087	1%	-13%
Operating income	16,069,546	16,301,777	10,447,395		
Nonoperating revenues (expenses):					
Interest income	207,745	151,263	125,610	37%	20%
Interest expense	(4,638,810)	(4,873,791)	(6,000,566)	-5%	-19%
Write-off of Development-in-Progress	-	-	(559,979)	-	-
Unrealized (loss) gain on restricted assets	(90,366)	98,663	-	-192%	-
Total nonoperating expenses	(4,521,431)	(4,623,865)	(6,434,935)	-2%	-28%
Change in net assets	11,548,115	11,677,912	4,012,460		
Net assets, beginning of year	22,399,925	10,722,013	6,709,553	109%	60%
Net assets, end of year	$ 33,948,040	$ 22,399,925	$ 10,722,013	52%	109%

Operating Revenues. Operating revenues for the years ended December 31, 2011, 2010 and 2009 totaled $40.7 million, $40.8 million and $38.7 million, respectively. The operating revenues for 2011 were comparable to 2010. The increase in operating revenues for 2010 as compared to 2009 was 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, 2011, 2010 and 2009 totaled $24.6 million, $24.5 million and $28.2 million, respectively. The operating expenses for 2011 were comparable to 2010. The decrease in operating expenses for 2010 as compared to 2009 was due primarily to a decrease of $4.9 million in rent paid to the City for 2010 under the Corporation's leases with the City.

Nonoperating Expenses. Total nonoperating expenses for the years ended December 31, 2011, 2010 and 2009 were $4.5 million, $4.6 million and $6.4 million, respectively.

Interest income in 2011 was $207,745, an increase of $56,482 compared to 2010, reflecting higher principal balances on investments in 2011 as compared to 2010.

United Nations Development Corporation

Statements of Net Assets

		2011		2010
Assets:				
Current assets:				
Cash and cash equivalents (Note 2)	$	8,528,361	$	6,989,170
Accounts receivable, less allowance for doubtful accounts of $3,700 in 2011 and 2010		627,423		871,422
Current portion of net investment in capital lease (Note 6)		616,298		521,693
Prepaid expenses and other assets, net		2,121,127		2,501,223
Total current assets		11,893,209		10,883,508
Restricted assets (Note 3)		39,431,340		34,436,740
Net investment in capital lease, less current portion (Note 6)		34,670,621		35,286,919
Long-term receivable (Note 2)		918,585		1,162,480
Unamortized bond issuance costs (Note 2)		1,671,515		1,803,982
Property and equipment, net (Note 4)		61,092,468		57,105,685
Total assets	$	149,677,738	$	140,679,314
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses	$	1,965,922	$	2,440,959
Security deposits payable and deferred revenues		129,592		160,804
		2,095,514		2,601,763
Current liabilities (payable from restricted assets):				
Accrued interest payable		2,391,469		2,461,369
Current portion of long-term debt		4,800,000		4,660,000
		7,191,469		7,121,369
Total current liabilities		9,286,983		9,723,132
Long-term obligations, net of current portion (Note 5)		106,442,715		108,556,257
Total liabilities		115,729,698		118,279,389
Net assets:				
Invested in capital assets, net of related debt		(8,268,553)		(9,844,684)
Restricted		18,253,796		9,444,415
Unrestricted		23,962,797		22,800,194
Total net assets		33,948,040		22,399,925
Total liabilities and net assets	$	149,677,738	$	140,679,314

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, 2011	2010
Operating revenues:		
Office space	$ 30,158,495	$ 29,940,438
Capital lease	9,496,228	9,328,509
Other income	1,041,582	1,525,136
Total operating revenues	40,696,305	40,794,083
Operating expenses:		
Administrative salaries and employee benefits	1,844,940	1,801,862
Property manager's reimbursable salaries and employee benefits	2,252,977	2,368,434
Other operating costs	12,486,289	12,834,058
Depreciation and amortization (Note 2)	4,919,012	4,430,950
Rent and real estate taxes (Note 6)	2,962,665	2,833,552
Management fees	70,515	82,045
Professional fees	90,361	141,405
Total operating expenses	24,626,759	24,492,306
Operating income	16,069,546	16,301,777
Nonoperating revenues (expenses):		
Interest income	207,745	151,263
Interest expense (Note 5)	(4,638,810)	(4,873,791)
Unrealized (loss) gain on restricted assets (Note 3)	(90,366)	98,663
Total nonoperating (expenses)	(4,521,431)	(4,623,865)
Change in net assets	11,548,115	11,677,912
Net assets, beginning of year	22,399,925	10,722,013
Net assets, end of year	$ 33,948,040	$ 22,399,925

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, 2011	2010
Cash flows from operating activities		
Receipts from tenants	$ 40,940,303	$ 40,665,044
Payments to suppliers	(12,508,719)	(12,559,790)
Payments for rent and real estate taxes	(3,017,791)	(7,808,656)
Payments to employees for salaries and benefits	(4,061,259)	(4,132,401)
Other payments	(5,153,325)	(3,583,369)
Net cash provided by operating activities	16,199,209	12,580,828
Cash flows from financing activities		
Increase in long-term obligations	3,155,953	-
Repayments of principal of long-term debt	(4,660,000)	(6,190,000)
Net cash used in financing activities	(1,504,047)	(6,190,000)
Cash flows from investing activities		
Increase in restricted assets	(4,319,378)	(1,638,316)
Capital expenditures for properties	(8,836,593)	(3,727,352)
Net cash used in investing activities	(13,155,971)	(5,365,668)
Net increase in cash and cash equivalents	1,539,191	1,025,160
Cash and cash equivalents, beginning of year	6,989,170	5,964,010
Cash and cash equivalents, end of year	$ 8,528,361	$ 6,989,170
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 11,548,115	$ 11,677,912
Depreciation and amortization	4,581,984	4,197,103
Unrealized loss (gain) on restricted assets	90,366	(98,663)
(Increase) decrease in current assets:		
Accounts and accrued interest receivable, net	243,999	(129,038)
Prepaid expenses and other assets	310,894	115,217
Increase (decrease) in current liabilities:		
Accounts payable, accrued expenses and interest payable	(544,937)	(3,208,644)
Security deposits payable and deferred revenues	(31,212)	26,941
Net cash provided by operating activities	$ 16,199,209	$ 12,580,828

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

1. Organization; Development Projects

United Nations Development Corporation (the “Corporation”) is a public benefit corporation established under Chapter 345, Laws of the State of New York, 1968, as amended (the “Act”). The Corporation was created for the purpose of planning and developing facilities for United Nations-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. In July 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”). In July 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, since October 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.

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

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

Bond issuance costs
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.

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 5). 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.

Total restricted assets held by the Corporation at December 31, 2011 and 2010 included in the statements of net assets were as follows:

	December 31, 2011		
	Cost	**Fair Value**	**Weighted average maturity (years) (a)**
U.S. Treasury securities:			
Treasury Bills	$ 7,611,001	$ 7,610,591	0.53
Treasury Notes	23,065,514	23,069,185	0.54
Total U.S. Treasury Securities	30,676,515	30,679,776	
Federal agency securities			
Federal National Mortgage Association Global Notes	2,210,056	2,213,471	0.38
Other	2,143,520	2,145,141	0.54
Total Federal agency securities	4,353,576	4,358,612	
Total Investments	35,030,091	35,038,388	
Cash and cash equivalents	4,392,952	4,392,952	
Total restricted assets	$ 39,423,043	$ 39,431,340	

	December 31, 2010		
	Cost	**Fair Value**	**Weighted average maturity (years) (a)**
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	8,971,882	9,037,903	
Federal agency securities			
Federal Home Loan Mortgage Corporation Discounts 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	24,872,154	24,904,796	
Total Investments	33,844,036	33,942,699	
Cash and cash equivalents	494,041	494,041	
Total restricted assets	$ 34,338,077	$ 34,436,740	

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

4. Property and equipment

Property and equipment consisted of the following as of December 31, 2011 and 2010:

	Balance at January 1, 2011	Additions 2011	Deletions 2011	Balance at December 31, 2011
Land	$ 3,823,597	-	-	$ 3,823,597
Building and building improvements	128,916,707	$ 5,175,630	-	134,092,337
Furniture, fixtures and equipment	1,238,860	25,535	-	1,264,395
Development-in-progress	405,700	3,635,428	-	4,041,128
	134,384,864	8,836,593	-	143,221,457
Less: accumulated depreciation and amortization	(77,279,179)	(4,849,810)	-	(82,128,989)
Property and equipment, net	$57,105,685	$ 3,986,783	$ -	$61,092,468

	2010	2010	2010	2010
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	405,700	-	-	405,700
	130,657,512	3,727,352	-	134,384,864
Less: accumulated depreciation and amortization	(72,883,044)	(4,396,135)	-	(77,279,179)
Property and equipment, net	$57,774,468	$ (668,783)	$ -	$57,105,685

The Corporation is currently engaged in planning and preliminary design work for a proposed new office building on the east side of First Avenue between 41st and 42nd Streets (the "Consolidation Building") expected to be leased and occupied exclusively by the United Nations. The Consolidation Building is anticipated to be financed by bonds issued by the Corporation that would be secured by rent payments by the United Nations under its lease.

In July 2011, State legislation was enacted which amended the Corporation's enabling statute to extend the Corporation's powers to cover the proposed site of the Consolidation Building and to authorize the City of New York to de-map the site as park land and transfer the site to the Corporation, thereby providing a framework for the Corporation to move forward with the Consolidation Building. The legislation required the completion of a memorandum of understanding by the Mayor of the City and State legislative leaders setting forth conditions precedent required to be satisfied prior to the transfer by the City to the Corporation of the Consolidation Building site. The conditions precedent include required payment by the Corporation to the Eastside Greenway and Park Fund (the "EGAP Fund") of $3 million initially and an additional $70 million at the time of the issuance of bonds to finance the Consolidation Building, both amounts to be used by the City to plan and create parkland and other open space improvements identified in the memorandum of understanding. The memorandum of understanding was completed in October 2011 and in December 2011, the Corporation made the $3 million payment to the EGAP Fund as required.

Included in property and equipment are development-in-progress costs relating to certain architectural, engineering, surveying and advisory work for the Consolidation Project of $4,041,128 and $405,700 as of December 31, 2011 and 2010, respectively. Development-in-progress costs for 2011 include the $3 million payment to the EGAP Fund as described above.

Between 2002 and 2005, the Corporation worked with its architects on an earlier concept for the Consolidation Building. Work was suspended in 2005 and the Corporation wrote off as part of its assets on its financial statements the majority of the amounts expended between 2002 and 2005 for planning and studies for the Building.

5. Long-Term Debt

Long-term debt as of December 31, 2010 and 2011 was as follows:

	Balance at January 1, 2010	Additions/ Deletions 2010	Balance at December 31, 2010	Additions/ Deletions 2011	Balance at December 31, 2011
Bonds of 2009, Series A	$ 111,475,000	$ (6,190,000)	$ 105,285,000	$ (4,660,000)	$ 100,625,000
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
	113,012,500	(6,190,000)	106,822,500	(4,660,000)	102,162,500
Add:					
Unamortized bond premium	5,429,698	(263,228)	5,166,470	(379,375)	4,787,095
Unamortized gain on bond refunding	1,289,817	(62,530)	1,227,287	(90,120)	1,137,167
	119,732,015	(6,515,758)	113,216,257	(5,129,495)	108,086,762
Other long-term liabilities	-	-	-	3,538,493	3,538,493
Less:					
Current portion of long-term debt	(6,190,000)	1,530,000	(4,660,000)	(140,000)	(4,800,000)
Current portion of other long-term obligations	-	-	-	(382,540)	(382,540)
Long-term obligations, net of current portion	$ 113,542,015	$ (4,985,758)	$ 108,556,257	$ (2,113,542)	$ 106,442,715

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 $379,375 for 2011 and $263,228 for 2010, 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.

The Corporation incurred issuance costs of $1,919,426 with respect to the 2009 Bonds. Amortization of the bond issuance costs was $132,467 for 2011 and $91,912 for 2010, respectively.

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:

	Principal	Interest	Total
Year ending December 31,			
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	5,685,000	4,018,888	9,703,888
2017 to 2021 *	32,875,000	15,634,137	48,509,137
2022 to 2026 *	42,905,000	6,769,213	49,674,213
2027 to 2028	287,500	46,000	333,500
	$ 102,162,500	$ 44,873,888	$ 147,036,388

* Represents total amounts for the five-year period.

6. Leases

As Lessee:

The City of New York

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

- 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 $1,260,219 and $1,293,126 for the years ended December 31, 2011 and 2010, 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 2012, in connection with the year ended December 31, 2011 and as permitted under the 1981 Lease, the Board of Directors established a reserve from the Corporation's 2011 revenues of $5,312,694 to pay planning and design costs for the UN Consolidation Project. Consequently, there was no Consolidated Surplus for the year ended December 31, 2011 and no additional rent was payable to the City for 2011. In March 2011, in connection with the year ended December 31, 2010 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.

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 5. At December 31, 2011, aggregate future minimum rentals under this ground lease approximated $17,000,000, 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 2012, $11.1 million in 2013, $11.3 million in 2014, $11.4 million in 2015 and $11.0 million in 2016.

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 $11.0 million in 2012, $11.5 million in 2013, $11.5 million in 2014, $11.1 million in 2015 and $11.0 million in 2016.

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.

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, in 2011 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, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
Total minimum lease payments to be received	$ 94,583,176	$ 101,106,153
Less: Unearned income	(59,296,257)	(65,297,541)
Less: Current portion of net investment in capital lease	(616,298)	(521,693)
Total net investment in capital lease (long-term)	$ 34,670,621	$ 35,286,919

7. **Retirement Plans**

The Corporation has a Simplified Employee Pension retirement plan ("SEP") covering employees of age 21 or over with one year or more of service. The Corporation's contributions are made directly to employee SEP accounts in amounts ranging from 12% to approximately 14% of base compensation. Contributions to the SEP plan were $168,551 and $160,624 for the years ended December 31, 2011 and 2010, 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 $77,402 and $75,512 for the years ended December 31, 2011 and 2010, respectively.

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

For the year ended December 31, 2011

	Phase I		Phase II		Phase III		Total	
Office Space								
Revenues and income from capital lease	$ 14,409,175		$ 15,749,319		$ 9,496,227		$ 39,654,721	
Operating expenses	(5,187,859)	$ 9,221,316	(5,681,723)	$ 10,067,596	(3,613,084)	$ 5,883,143	(14,482,666)	$ 25,172,055
Fee Income-Lobby/Office Conversion						72,988		72,988
Other Income (Note A)				968,594				968,594
Interest Income		73,783		73,918		36,800		184,501
Gross Revenues		9,295,099		11,110,108		5,992,931		26,398,138
General and Administrative Expenses		(915,718)		(909,970)		(455,930)		(2,281,618)
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				(1,452,446)				(1,452,446)
Net Revenues (Note B)		8,379,381		8,374,692		5,537,001		22,291,074
Base Rent to the City of New York (Note C)		(81,133)		(698,086)		(481,000)		(1,260,219)
Debt Service Requirements (Note D)		(3,045,457)		(4,030,005)		(2,507,276)		(9,582,738)
Net Revenues in Excess of Debt Service Requirements		$ 5,252,791		$ 3,646,601		$ 2,548,725		$ 11,448,117

See 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 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 2011 on the 2009 Bonds.