United Nations Development Corporation

Financial Statements
For the years ended December 31, 2012 and 2011
and Supplemental Schedule
For the year ended December 31, 2012

United Nations Development Corporation
Index of Financial Statements and Supplemental Schedule

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

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, 2012 and 2011, which collectively comprise the Corporation's financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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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 5 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, 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 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 opinions on the basic financial statements as a whole. The supplementary information shown on pages 21 and 22 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 & Shron LLP

New York, NY
March 27, 2013

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, 2012 and 2011. 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 position, the statements of revenues, expenses, and changes in net position, 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 Position

The statements of net position present the financial position of the Corporation at the end of each year. Net position represents the difference between the Corporation's total assets and total liabilities. A summary comparison of the Corporation's assets, liabilities and net position at December 31, 2012, 2011 and 2010 is shown below.

Assets:	**2012**	**2011**	**2010**
Current assets	$ 15,252,942	$ 11,893,209	$ 10,883,508
Restricted assets	43,082,961	39,431,340	34,436,740
Property and equipment, net	62,680,054	61,092,468	57,105,685
Other noncurrent assets	35,607,862	37,260,721	38,253,381
Total Assets	$ 156,623,819	$ 149,677,738	$ 140,679,314
Liabilities:			
Total current liabilities	$ 11,181,278	$ 9,286,983	$ 9,723,132
Long-term obligations, net of current portion	100,539,158	106,442,715	108,556,257
Total Liabilities	111,720,436	115,729,698	118,279,389
Net Position	44,903,383	33,948,040	22,399,925
Total Liabilities and Net Position	$ 156,623,819	$ 149,677,738	$ 140,679,314

Fiscal Year 2012 vs. 2011

At December 31, 2012, the Corporation had total assets of $156.6 million, an increase of $6.9 million from 2011. The increase in total assets is primarily attributable to an increase of $3.4 million in current assets, an increase of $3.7 million in restricted assets, an increase of $1.6 million in property and equipment and a decrease of $1.7 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 2012 primarily reflects the reserve of $3,577,663 in 2012 for planning and design costs of the Consolidation Project as described in Note 6. Other noncurrent assets for 2012 and 2011 include $33.9 million and $34.7 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2012 were $11.2 million, an increase of $1.9 million from 2011, reflecting an increase in accrued expenses. Long-term obligations, net of current portion, were $100.5 million at December 31, 2012, a decrease of $5.9 million from 2011 primarily due to repayment of principal on the 2009 Bonds.

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. Long-term obligations, net of current portion, were $106.4 million at December 31, 2011, a decrease of $2.1 million from 2011. The decrease reflects repayment of principal on the 2009 Bonds, which was offset by an increase in long-term obligations of $3.5 million related to the long-term liability for a lighting modernization project at One and Two UN Plaza completed in 2011 and which is to be repaid over a period of ten years.

Statements of Revenues, Expenses and Changes in Net Position

The following is a summary of the Corporation's revenues, expenses, and changes in net position for the years ended December 31, 2012, 2011 and 2010.

	2012	2011	2010	2012 vs. 2011 (%)	2011 vs. 2010 (%)
Total operating revenues	$ 41,094,064	$ 40,696,305	$ 40,794,083	1%	0%
Total operating expenses	25,771,958	24,626,759	24,492,306	5%	1%
Operating income	15,322,106	16,069,546	16,301,777		
Nonoperating revenues (expenses):					
Interest income	100,091	207,745	151,263	-52%	37%
Interest expense	(4,425,156)	(4,638,810)	(4,873,791)	-5%	-5%
Unrealized loss on restricted assets	(41,698)	(90,366)	98,663	54%	-192%
Total nonoperating expenses	(4,366,763)	(4,521,431)	(4,623,865)	-3%	-2%
Change in net position	10,955,343	11,548,115	11,677,912		
Net position, beginning of year	33,948,040	22,399,925	10,722,013	52%	109%
Net position, end of year	$ 44,903,383	$ 33,948,040	$ 22,399,925	32%	52%

Operating Revenues. Operating revenues for the years ended December 31, 2012, 2011 and 2010 totaled $41.1 million, $40.7 million and $40.8 million, respectively. The increase in operating revenues for 2012 as compared to 2011 was due primarily to an increase in operating expenses that were a pass-through to tenants. The operating revenues for 2011 were comparable to 2010.

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, 2012, 2011 and 2010 totaled $25.8 million, $24.6 million and $24.5 million, respectively. The increase in operating expenses for 2012 as compared to 2011 was due primarily to increases of building operating expenses. The operating expenses for 2011 were comparable to 2010.

Nonoperating Expenses. Total nonoperating expenses for the years ended December 31, 2012, 2011 and 2010 were $4.4 million, $4.5 million and $4.6 million, respectively.

Interest income in 2012 was $100,091, a decrease of $107,654 compared to 2011, reflecting lower yields in investments in 2012 as compared to 2011. 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 Position

	As of December 31, 2012	As of December 31, 2011
Assets:		
Current assets:		
Cash and cash equivalents (Note 2)	$ 11,098,540	$ 8,528,361
Accounts receivable, less allowance for doubtful accounts of $3,700 in 2012 and 2011	444,674	627,423
Current portion of net investment in capital lease (Note 6)	728,228	616,298
Prepaid expenses and other assets, net	2,981,500	2,121,127
Total current assets	15,252,942	11,893,209
Restricted assets (Note 3)	43,082,961	39,431,340
Net investment in capital lease, less current portion (Note 6)	33,942,393	34,670,621
Long-term receivable (Note 2)	145,190	918,585
Unamortized bond issuance costs (Note 2)	1,520,279	1,671,515
Property and equipment, net (Note 4)	62,680,054	61,092,468
Total assets	$ 156,623,819	$ 149,677,738
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,593,027	$ 1,965,922
Security deposits payable and deferred revenues	307,782	129,592
	3,900,809	2,095,514
Current liabilities (payable from restricted assets):		
Accrued interest payable	2,295,469	2,391,469
Current portion of long-term debt	4,985,000	4,800,000
	7,280,469	7,191,469
Total current liabilities	11,181,278	9,286,983
Long-term obligations, net of current portion (Note 5)	100,539,158	106,442,715
Total liabilities	111,720,436	115,729,698
Net position:		
Invested in capital assets, net of related debt	(7,023,374)	(8,268,553)
Restricted	23,355,391	18,253,796
Unrestricted	28,571,366	23,962,797
Total net position	44,903,383	33,948,040
Total liabilities and net position	$ 156,623,819	$ 149,677,738

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, 2012	2011
Operating revenues:		
Office space	$ 30,621,749	$ 30,158,495
Capital lease	9,182,378	9,496,228
Other income	1,289,937	1,041,582
Total operating revenues	41,094,064	40,696,305
Operating expenses:		
Administrative salaries and employee benefits	1,909,166	1,844,940
Property manager's reimbursable salaries and employee benefits	2,471,652	2,252,977
Other operating costs	12,975,523	12,486,289
Depreciation and amortization (Note 2)	5,127,655	4,919,012
Rent and real estate taxes (Note 6)	3,037,605	2,962,665
Management fees	66,480	70,515
Professional fees	183,877	90,361
Total operating expenses	25,771,958	24,626,759
Operating income	15,322,106	16,069,546
Nonoperating revenues (expenses):		
Interest income	100,091	207,745
Interest expense (Note 5)	(4,425,156)	(4,638,810)
Unrealized loss on restricted assets (Note 3)	(41,698)	(90,366)
Total nonoperating (expenses)	(4,366,763)	(4,521,431)
Change in net position	10,955,343	11,548,115
Net position, beginning of year	33,948,040	22,399,925
Net position, end of year	$ 44,903,383	$ 33,948,040

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, 2012	2011
Cash flows from operating activities		
Receipts from tenants	$ 41,276,812	$ 40,940,303
Payments to suppliers	(12,924,300)	(12,508,719)
Payments for rent and real estate taxes	(3,069,680)	(3,017,791)
Payments to employees for salaries and benefits	(4,350,921)	(4,061,259)
Other payments	(4,229,527)	(5,153,325)
Net cash provided by operating activities	16,702,384	16,199,209
Cash flows from financing activities		
(Decrease) increase in long-term obligations	(382,540)	3,155,953
Repayments of principal of long-term debt	(4,800,000)	(4,660,000)
Net cash used in financing activities	(5,182,540)	(1,504,047)
Cash flows from investing activities		
Increase in restricted assets	(2,303,626)	(4,319,378)
Capital expenditures for properties	(6,646,039)	(8,836,593)
Net cash used in investing activities	(8,949,665)	(13,155,971)
Net increase in cash and cash equivalents	2,570,179	1,539,191
Cash and cash equivalents, beginning of year	8,528,361	6,989,170
Cash and cash equivalents, end of year	$ 11,098,540	$ 8,528,361
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	$ 10,955,343	$ 11,548,115
Depreciation and amortization	4,742,874	4,581,984
Unrealized loss on restricted assets	41,698	90,366
(Increase) decrease in current assets:		
Accounts and accrued interest receivable, net	182,749	243,999
Prepaid expenses and other assets	(929,575)	310,894
Increase (decrease) in current liabilities:		
Accounts payable, accrued expenses and interest payable	1,531,105	(544,937)
Security deposits payable and deferred revenues	178,190	(31,212)
Net cash provided by operating activities	$ 16,702,384	$ 16,199,209

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:

<u>One United Nations Plaza</u>

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.

<u>Two United Nations Plaza</u>

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.

<u>Three United Nations Plaza</u>

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

2. Significant Accounting Principles

Basis of accounting
The Corporation uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States, 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 complies with all applicable pronouncements of GASB as well as with authoritative pronouncements applicable to nongovernmental entities (e.g. Financial Accounting Standards Board Statements) that do not conflict with GASB pronouncements.

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.

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

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

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

Income taxes
No provision for taxes or deferred taxes has been included in these financial statements because the Corporation is exempt from federal and state income taxes as a public benefit corporation 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.

New accounting pronouncements
In June 2011, GASB issued GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (“GASB No. 63’)*. GASB No. 63 addresses the financial reporting for deferred outflows of resources, deferred inflows of resources, and net position. In accordance with GASB No. 63, beginning in the year ended December 31, 2012, the Corporation changed the format of the financial statements to comply with the new requirements and changed the balance sheets to statements of net position, and the statements of revenues, expenses, and changes in net assets to the statements of revenues, expenses, and changes in net position.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, is effective for periods beginning after June 15, 2011, with earlier application encouraged. GASB 64 clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (*a*) the collectibility of swap payments is considered to be probable, (*b*) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (*c*) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. It is not anticipated that GASB 64 will have an impact on the Corporation’s financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65") is effective for financial statement for periods beginning after December 15, 2012. GASB 65 establishes accounting and reporting standards that reclassify certain items that are currently reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and recognize certain items currently being reported as assets and liabilities as outflows and inflow of resources. In addition, it limits the use of the term deferred in the financial statement presentation. The Corporation has not completed the process of evaluating GASB 65’s impact on its financial statements.

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, 2012 and 2011 included in the statements of net position were as follows:

	December 31, 2012		
	Cost	Fair Value	Weighted average maturity (years) (a)
U.S. Treasury securities:			
Treasury Notes	$ 40,258,608	$ 40,225,208	0.49
Total U.S. Treasury Securities	40,258,608	40,225,208	
Total Investments	40,258,608	40,225,208	
Cash and cash equivalents	2,857,753	2,857,753	
Total restricted assets	$ 43,116,361	$ 43,082,961	

	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	

(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, 2012 and 2011:

	Balance at January 1, 2012	Additions 2012	Deletions 2012	Balance at December 31, 2012
Land	$ 3,823,597	-	-	$ 3,823,597
Building and building improvements	134,092,337	$ 1,462,278	-	135,554,615
Furniture, fixtures and equipment	1,264,395	2,261	-	1,266,656
Development-in-progress	4,041,128	5,181,500	-	9,222,628
	143,221,457	6,646,039	-	149,867,496
Less: accumulated depreciation and amortization	(82,128,989)	(5,058,453)	-	(87,187,442)
Property and equipment, net	$61,092,468	$ 1,587,586	$ -	$62,680,054

	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

The Corporation is currently engaged in planning and design work for the proposed development of a new, build-to-suit office building that would be located on First Avenue between 41st and 42nd Streets (known as the "Consolidation Building") for lease and occupancy exclusively by the United Nations. The Consolidation Building would permit the United Nations to consolidate in a single location certain office space currently located throughout midtown Manhattan.

To permit this development, State legislation in July 2011 amended the Corporation's enabling statute to expand the boundaries of the United Nations development district and other powers of the Corporation to include the Consolidation Building. As required by this legislation, the Mayor and State legislative leaders signed a Memorandum of Understanding in October 2011 (the "MOU") establishing the framework for the transfer by the City to the Corporation of the site for the Consolidation Building as permitted under the legislation and funding by the Corporation for the City to plan and create specified parkland and other open space improvements.

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. Subject to required City approvals, actions and decisions by the United Nations and requirements for financing, the

Corporation expects to begin construction of the Consolidation Building in 2014 and to complete construction in 2017.

Included in property and equipment are development-in-progress costs relating to certain architectural, engineering, surveying and advisory work for the Consolidation Building of $9,222,628 and $4,041,128 as of December 31, 2012 and 2011, respectively. Development-in-progress costs also include an initial $3 million payment made by the Corporation in 2011 as required under the MOU to fund parkland and other open space improvements by the City.

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, 2011 and 2012 was as follows:

	Balance at January 1, 2011	Additions/ Deletions 2011	Balance at December 31, 2011	Additions/ Deletions 2012	Balance at December 31, 2012
Bonds of 2009, Series A	$ 105,285,000	$ (4,660,000)	$ 100,625,000	$ (4,800,000)	$ 95,825,000
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
	106,822,500	(4,660,000)	102,162,500	(4,800,000)	97,362,500
Add:					
Unamortized bond premium	5,166,470	(379,375)	4,787,095	(433,128)	4,353,967
Unamortized gain on bond refunding	1,227,287	(90,120)	1,137,167	(102,889)	1,034,278
	113,216,257	(5,129,495)	108,086,762	(5,336,017)	102,750,745
Other long-term liabilities	-	3,538,493	3,538,493	(382,540)	3,155,953
Less:					
Current portion of long-term debt	(4,660,000)	(140,000)	(4,800,000)	(185,000)	(4,985,000)
Current portion of other long-term obligations	-	(382,540)	(382,540)	-	(382,540)
Long-term obligations, net of current portion	$ 108,556,257	$ (2,113,542)	$ 106,442,715	$ (5,903,557)	$ 100,539,158

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 $433,128 for 2012 and $379,375 for 2011, 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 $151,236 for 2012 and $132,467 for 2011, 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,			
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	5,960,000	3,739,837	9,699,837
2018 to 2022 *	34,480,000	14,037,537	48,517,537
2023 to 2027 *	35,340,000	4,648,975	39,988,975
2028	287,500	23,000	310,500
	$ 97,362,500	$ 39,967,950	$ 137,330,450

* 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 $1,291,914 and $1,260,219 for the years ended December 31, 2012 and 2011, 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 2013, in connection with the year ended December 31, 2012 and as permitted under the 1981 Lease, the Board of Directors established a reserve from the Corporation's 2012 revenues of $3,577,663 to pay planning and design costs for the UN Consolidation Project. Consequently, there was no Consolidated Surplus for the year ended December 31, 2012 and no additional rent was payable to the City for 2012. 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.

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, 2012, aggregate future minimum rentals under this ground lease approximated $16,750,000, assuming the purchase option is not exercised.

<u>As Lessor</u>:

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 $11.1 million in 2013, $11.3 million in 2014, $11.4 million in 2015, $11.0 million in 2016 and $10.9 million in 2017.

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 $11.5 million in 2013, $11.5 million in 2014, $11.1 million in 2015, $11.0 million in 2016 and $10.2 million in 2017.

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 2012 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, 2012 and 2011 are as follows:

	December 31,	
	2012	**2011**
Total minimum lease payments to be received	$ 88,060,198	$ 94,583,176
Less: Unearned income	(53,389,577)	(59,296,257)
Less: Current portion of net investment in capital lease	(728,228)	(616,298)
Total net investment in capital lease (long-term)	$ 33,942,393	$ 34,670,621

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 $175,197 and $168,551 for the years ended December 31, 2012 and 2011, 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 $111,243 and $77,402 for the years ended December 31, 2012 and 2011, 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, 2012

	Phase I		Phase II		Phase III		Total	
Office Space								
Revenues and income from capital lease	$ 14,370,279		$ 16,251,469		$ 9,182,378		$ 39,804,126	
Operating expenses	(5,492,968)	$ 8,877,311	(5,876,711)	$ 10,374,758	(3,871,540)	$ 5,310,838	(15,241,219)	$ 24,562,907
Fee Income-Tenant Alteration Work						285,712		285,712
Other Income (Note A)				1,004,225				1,004,225
Interest Income		33,737		33,898		16,906		84,541
Gross Revenues		8,911,048		11,412,881		5,613,456		25,937,385
General and Administrative Expenses		(988,082)		(980,619)		(465,977)		(2,434,678)
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				(1,495,692)				(1,495,692)
Net Revenues (Note B)		7,922,966		8,563,570		5,147,479		21,634,015
Base Rent to the City of New York (Note C)		(82,704)		(728,210)		(481,000)		(1,291,914)
Debt Service Requirements (Note D)		(3,067,905)		(4,024,493)		(2,490,540)		(9,582,938)
Net Revenues in Excess of Debt Service Requirements		$ 4,772,357		$ 3,810,867		$ 2,175,939		$ 10,759,163

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 2012 on the 2009 Bonds.