United Nations Development Corporation

Financial Statements
For the years ended December 31, 2013 and 2012
and Supplemental Schedule
For the year ended December 31, 2013

MARKS PANETH

ACCOUNTANTS & ADVISORS

United Nations Development Corporation
Index of Financial Statements and Supplemental Schedule

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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, 2013 and 2012, which collectively comprise the Corporation's financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Nations Development Corporation as of December 31, 2013 and 2012, 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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Other Matters

Emphasis of Matter

As discussed in Note 2, the Corporation has restated its financial statements as of and for the year ended December 31, 2012 during the current year to retroactively implement Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 23 and 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Marks Paneth LLP

New York, NY
March 28, 2014

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, 2013 and 2012. 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 ("GASB") 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 summary statement of net position presents the financial position of the Corporation. The net position is the difference between total assets plus total deferred outflows of resources and total liabilities plus deferred inflows of resources. A summarized comparison of the Corporation's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at December 31, 2013, 2012 and 2011 follows:

		Restated	Restated
Assets:	**2013**	**2012**	**2011**
Current assets	$ 15,004,565	$ 15,252,942	$ 11,893,209
Restricted assets	51,100,754	43,082,961	39,431,340
Property and equipment, net	64,038,692	62,680,054	61,092,468
Other noncurrent assets	33,081,687	34,087,583	35,589,206
Total assets	$ 163,225,698	$ 155,103,540	$ 148,006,223
Liabilities:			
Total current liabilities	$ 16,778,786	$ 11,181,278	$ 9,286,983
Long-term obligations, net of current portion	93,469,386	99,504,880	105,305,548
Total liabilities	110,248,172	110,686,158	114,592,531
Deferred inflows of resources			
Unamortized gain on bond refunding	1,963,178	2,258,088	2,569,182
Total deferred inflows of resources	1,963,178	2,258,088	2,569,182
Net position	51,014,348	42,159,294	30,844,510
Total liabilities, deferred inflows of resources and net position	$ 163,225,698	$ 155,103,540	$ 148,006,223

Fiscal Year 2013 vs. 2012

In March 2012, the GASB issued GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities ("GASB 65").*" GASB 65 clarified the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. In accordance with GASB 65, beginning with the year ended December 31, 2013, the Corporation reclassified the unamortized gain on bond refunding that was previously classified as a long-term liability to deferred inflows of resources. In addition, GASB 65 required that debt issuance costs be recognized as an expense in the period incurred. Prior to GASB 65, debt issuance costs were reported as an asset in the statement of net position and recognized as an expense over the duration of the related debt. In accordance with GASB 65, beginning with the year ended December 31, 2013; the Corporation retroactively applied this statement to prior periods and adjusted the beginning balance of net position for the earliest period presented for all debt issuance costs, including the portion of debt issuance costs that was reflected in the calculation of the gain on bond refunding. The format of the financial statements for the year ended December 31, 2012 has been changed accordingly for comparative purposes. The net effect of the change was a decrease in beginning net position of approximately $3.1 million as of January 1, 2012.

At December 31, 2013, the Corporation had total assets of $163.2 million, an increase of $8.1 million from 2012. The increase in total assets is primarily attributable to an increase of $8.0 million in restricted assets, an increase of $1.3 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 2013 primarily reflects additional deposits made in 2013 for planning and design costs of the Consolidation Project as described in Note 6. Other noncurrent assets for 2013 and 2012 include $33.1 million and $33.9 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2013 were $16.8 million, an increase of $5.6 million from 2012, reflecting $3.5 million in additional rent payable to the City of New York under the Corporation's lease for 2013 and an increase in accounts payable and accrued expenses. Long-term obligations, net of current portion, were $93.5 million at December 31, 2013, a decrease of $6.0 million from 2012 primarily due to repayment of principal on the 2009 Bonds.

Fiscal Year 2012 vs. 2011

At December 31, 2012, the Corporation had total assets of $155.1 million, an increase of $7.1 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 $1.5 million in other noncurrent assets. Restricted assets represent funds held in investment accounts as required by the indenture relating to the Corporation's 2009 Refunding Bonds, Series A (the "2009 Bonds"). The increase in restricted assets for 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 accounts payable and accrued expenses. Long-term obligations, net of current portion, were $99.5 million at December 31, 2012, a decrease of $5.8 million from 2011 primarily due to repayment of principal on the 2009 Bonds.

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, 2013, 2012 and 2011.

	2013	Restated 2012	Restated 2011	2013 vs. 2012 (%)	2012 vs. 2011 (%)
Total operating revenues	$ 42,889,427	$ 41,094,064	$ 40,696,305	4%	1%
Total operating expenses	30,236,423	25,771,958	24,626,759	17%	5%
Operating income	12,653,004	15,322,106	16,069,546		
Nonoperating revenues (expenses):					
Interest income	245,006	100,091	207,745	145%	-52%
Interest expense	(3,856,548)	(4,065,715)	(4,269,786)	-5%	-5%
Unrealized loss on restricted assets	(186,408)	(41,698)	(90,366)	-347%	-54%
Total nonoperating expenses	(3,797,950)	(4,007,322)	(4,152,407)	-5%	-3%
Change in net position	8,855,054	11,314,784	11,917,139		
Net position, beginning of year (as previously stated)	42,159,294	33,948,040	22,399,925	24%	52%
Effect of adoption of GASB Statement No. 65	-	(3,103,530)	(3,472,554)	-100%	-11%
Net position, beginning of year (restated)	42,159,294	30,844,510	18,927,371		
Net position, end of year	$ 51,014,348	$ 42,159,294	$ 30,844,510	21%	37%

Operating Revenues. Operating revenues for the years ended December 31, 2013, 2012 and 2011 totaled $42.9 million, $41.1 million and $40.7 million, respectively. The increase in operating revenues for 2013 as compared to 2012 was due primarily to an increase in rent under the UN's leases at One and Two UN Plaza and an increase in operating expenses that were a pass-through to tenants. 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 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, 2013, 2012 and 2011 totaled $30.2 million, $25.8 million and $24.6 million, respectively. The increases in operating expenses for 2013 as compared to 2012 reflects the $3.5 million in additional rent payable to the City of New York for 2013 and increases of building operating expenses. The increase in operating expenses for 2012 as compared to 2011 was due primarily to increases of building operating expenses.

Nonoperating Expenses. Total nonoperating expenses for the years ended December 31, 2013, 2012 and 2011 were $3.8 million, $4.0 million and $4.2 million, respectively.

Interest income in 2013 was $245,006, an increase of $144,915 compared to 2012, reflecting higher principal balances on investments in 2013 as compared to 2012. 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.

United Nations Development Corporation
Statements of Net Position

	As of December 31, 2013	Restated 2012
Assets:		
Current assets:		
Cash and cash equivalents (Note 2)	$ 10,102,252	$ 11,098,540
Accounts receivable, less allowance for doubtful accounts of $3,700 in 2013 and 2012	898,973	444,674
Current portion of net investment in capital lease (Note 6)	860,705	728,228
Prepaid expenses and other assets, net	3,142,635	2,981,500
Total current assets	15,004,565	15,252,942
Noncurrent assets:		
Restricted assets (Note 3)	51,100,754	43,082,961
Net investment in capital lease, less current portion (Note 6)	33,081,687	33,942,393
Long-term receivable (Note 2)	-	145,190
Property and equipment, net (Note 4)	64,038,692	62,680,054
Total noncurrent assets	148,221,133	139,850,598
Total assets	$ 163,225,698	$ 155,103,540
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,547,728	$ 3,593,027
Security deposits payable and unearned revenues	392,450	307,782
	5,940,178	3,900,809
Current liabilities (payable from restricted assets):		
Rent payable to the City of New York	3,452,664	-
Accrued interest payable	2,195,944	2,295,469
Current portion of long-term debt	5,190,000	4,985,000
	10,838,608	7,280,469
Total current liabilities	16,778,786	11,181,278
Noncurrent liabilities:		
Long-term obligations, net of current portion (Note 5)	93,469,386	99,504,880
Total noncurrent liabilities	93,469,386	99,504,880
Total liabilities	110,248,172	110,686,158
Deferred inflows of resources:		
Unamortized gain on bond refunding	1,963,178	2,258,088
Total deferred inflows of resources	1,963,178	2,258,088
Net position:		
Invested in capital assets, net of related debt	(7,650,656)	(9,767,463)
Restricted	27,786,409	23,355,391
Unrestricted	30,878,595	28,571,366
Total net position	51,014,348	42,159,294
Total liabilities, deferred inflows of resources and net position	$ 163,225,698	$ 155,103,540

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, 2013	For the years ended December 31, Restated 2012
Operating revenues:		
Office space	$ 32,467,212	$ 30,621,749
Capital lease	9,311,827	9,182,378
Other income	1,110,388	1,289,937
Total operating revenues	42,889,427	41,094,064
Operating expenses:		
Administrative salaries and employee benefits	1,982,673	1,909,166
Property manager's reimbursable salaries and employee benefits	2,602,405	2,471,652
Other operating costs	13,667,102	12,975,523
Depreciation and amortization (Note 2)	5,273,318	5,127,655
Rent and real estate taxes (Note 6)	6,576,088	3,037,605
Management fees	66,480	66,480
Professional fees	68,357	183,877
Total operating expenses	30,236,423	25,771,958
Operating income	12,653,004	15,322,106
Nonoperating revenues (expenses):		
Interest income	245,006	100,091
Interest expense (Note 5)	(3,856,548)	(4,065,715)
Unrealized loss on restricted assets (Note 3)	(186,408)	(41,698)
Total nonoperating (expenses)	(3,797,950)	(4,007,322)
Change in net position	8,855,054	11,314,784
Net position, beginning of year (as previously stated)	42,159,294	33,948,040
Effect of adoption of GASB Statement No. 65 (Note 2)	-	(3,103,530)
Net position, beginning of year (restated)	42,159,294	30,844,510
Net position, end of year	$ 51,014,348	$ 42,159,294

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, 2013	Restated 2012
Cash flows from operating activities:		
Receipts from tenants	$ 42,435,127	$ 41,276,812
Payments to suppliers	(12,258,929)	(12,924,300)
Payments for rent and real estate taxes	(3,118,524)	(3,069,680)
Payments to employees for salaries and benefits	(4,599,318)	(4,350,921)
Other payments	(4,193,568)	(4,229,527)
Net cash provided by operating activities	18,264,788	16,702,384
Cash flows from financing activities:		
Decrease in long-term obligations	(382,540)	(382,540)
Repayments of principal of long-term debt	(4,985,000)	(4,800,000)
Net cash used in financing activities	(5,367,540)	(5,182,540)
Cash flows from investing activities:		
Increase in restricted assets	(7,330,782)	(2,303,626)
Capital expenditures for properties	(6,562,754)	(6,646,039)
Net cash used in investing activities	(13,893,536)	(8,949,665)
Net (decrease) increase in cash and cash equivalents	(996,288)	2,570,179
Cash and cash equivalents, beginning of year	11,098,540	8,528,361
Cash and cash equivalents, end of year	$ 10,102,252	$ 11,098,540
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	$ 8,855,054	$ 11,314,784
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation and amortization	4,515,453	4,383,433
Unrealized loss on restricted assets	186,408	41,698
Changes in operating assets and liabilities:		
Accounts and accrued interest receivable, net	(454,299)	182,749
Prepaid expenses and other assets	(230,336)	(929,575)
Accounts payable, accrued expenses and interest payable	5,307,840	1,531,105
Security deposits payable and unearned revenues	84,668	178,190
Net cash provided by operating activities	$ 18,264,788	$ 16,702,384

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. the Financial Accounting Standards Board Accounting Standards Codification) 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
Bond issuance costs are recognized as expenses in the period incurred.

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

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

Recent accounting pronouncements
In March 2012, the GASB issued GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities ("GASB 65").*" GASB 65 clarified the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. In accordance with GASB 65, beginning with the year ended December 31, 2013, the Corporation reclassified the unamortized gain on bond refunding that was previously classified as a long-term liability to deferred inflows of resources. In addition, GASB 65 required that debt issuance costs be recognized as an expense in the period incurred. Prior to GASB 65, debt issuance costs were reported as an asset in the statement of net position and recognized as an expense over the duration of the related debt. In accordance with GASB 65, beginning with the year ended December 31, 2013; the Corporation retroactively applied this statement to prior periods and adjusted the beginning balance of net position for the earliest period presented for all debt issuance costs, including the portion of debt issuance costs that was reflected in the calculation of the gain on bond refunding. The format of the financial statements for the year ended December 31, 2012 has been changed accordingly for comparative purposes. The net effect of the change was a decrease in beginning net position of approximately $3.1 million as of January 1, 2012.

GASB Statement No. 66, "*Technical Corrections - 2012 an Amendment of GASB Statements No. 10 and No.* 62 ("GASB 66")," is effective for financial statements period beginning after December 15, 2012. GASB 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions,* and Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The adoption of GASB 66 did not have an impact on the Corporation's financial statements.

GASB Statement No. 67, "*Financial Reporting for Pension Plans* ("GASB 67")," is effective for financial statements for fiscal years beginning after June 15, 2013. GASB 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and GASB Statement No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules. GASB 67 will not have an impact on the Corporation's financial statements as the Corporation is not an applicable pension-administered entity.

GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions* ("GASB 68")," is effective for fiscal years beginning after June 15, 2014. GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. GASB 68 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 69, "*Government Combinations and Disposals of Government Operations* ("GASB 69")," is effective for fiscal years beginning after December 15, 2013. GASB 69 establishes standards of accounting and financial reporting related to government combinations and disposals of government operations. GASB 69 requires the use of carrying values to measure the assets and liabilities in a government merger or transfer of operations, and gives accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. GASB 69 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70")," is effective for fiscal years beginning after June 15, 2013. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB 70 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* ("GASB 71")," eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB 68. To correct this potential understatement, GASB 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of GASB 68, which is required to be applied in fiscal years beginning after June 15, 2014. GASB 71 is not expected to have an impact on the Corporation's 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, 2013 and 2012 included in the statements of net position were as follows:

	December 31, 2013		
	Cost	Fair Value	Weighted average maturity (years) (a)
U.S. Treasury securities:			
Treasury Bills	$ 819,711	$ 820,281	0.01
Treasury Notes	47,691,531	47,471,152	0.76
Total U.S. Treasury Securities	48,511,242	48,291,433	
Total Investments	48,511,242	48,291,433	
Cash and cash equivalents	2,809,321	2,809,321	
Total restricted assets	$ 51,320,563	$ 51,100,754	

	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	

(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, 2013 and 2012:

	Balance at January 1, 2013	Additions 2013	Deletions 2013	Balance at December 31, 2013
Land	$ 3,823,597	-	-	$ 3,823,597
Building and building improvements	135,554,615	$ 2,032,389	-	137,587,004
Furniture, fixtures and equipment	1,266,656	23,835	-	1,290,491
Development-in-progress	9,222,628	4,506,530	-	13,729,158
	149,867,496	6,562,754	-	156,430,250
Less: accumulated depreciation and amortization	(87,187,442)	(5,204,116)	-	(92,391,558)
Property and equipment, net	$62,680,054	$ 1,358,638	$ -	$64,038,692

	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

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 would be financed by bonds issued by the Corporation and secured by the UN's rental payments under its lease of the building. At the end of the lease term, the UN would without additional cost obtain ownership of the Consolidation Building, provided it has complied with its lease obligations.

The UN has made no commitment to the Consolidation Building and is continuing its study of possible options for meeting its long-term needs for space in the City for office and related purposes, including leasing the Consolidation Building from the Corporation as well as other options. A commitment by the UN to the Consolidation Building requires approval by the UN General Assembly. In February 2014, the UN Secretary-General submitted a Report to the UN General Assembly concerning the options under consideration, without making a recommendation from among them. Action by the UN General Assembly on the Secretary General’s Report is pending.

The Secretary-General’s Report states that, given changed expectations of the UN’s future needs for office space in the City, the UN is unable to comply at this time with the MOU requirement for the UN, in conjunction with leasing the Consolidation Building, to exercise its options to continue leasing space at One and Two UN Plaza from 2018 to 2023. The UN has advised that changes to the MOU to address this issue are necessary for the UN to continue to proceed with the Consolidation Building. In addition, due to the passage of time, the MOU would also require an extension of its current expiration of December 31, 2015.

Subject to required City approvals, the actions and decisions by the UN and requirements for financing, the Corporation expects to begin construction of the Consolidation Building 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 $13,729,158 and $9,222,628 as of December 31, 2013 and 2012, 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.

5. Long-Term Debt

Long-term debt as of December 31, 2012 and 2013 was as follows:

	Restated Balance at January 1, 2012	Additions/ Deletions 2012	Restated Balance at December 31, 2012	Additions/ Deletions 2013	Balance at December 31, 2013
Bonds of 2009, Series A	$ 100,625,000	$ (4,800,000)	$ 95,825,000	$ (4,985,000)	$ 90,840,000
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
	102,162,500	(4,800,000)	97,362,500	(4,985,000)	92,377,500
Add:					
Unamortized bond premium	4,787,095	(433,128)	4,353,967	(462,954)	3,891,013
	106,949,595	(5,233,128)	101,716,467	(5,447,954)	96,268,513
Other long-term liabilities	3,538,493	(382,540)	3,155,953	(382,540)	2,773,413
Less:					
Current portion of long-term debt	(4,800,000)	(185,000)	(4,985,000)	(205,000)	(5,190,000)
Current portion of other long-term obligations	(382,540)	-	(382,540)	-	(382,540)
Long-term obligations, net of current portion	$ 105,305,548	$ (5,800,668)	$ 99,504,880	$ (6,035,494)	$ 93,469,386

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 $462,955 for 2013 and $433,128 for 2012, 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.

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,			
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	6,260,000	3,441,837	9,701,837
2019 to 2023 *	36,160,000	12,360,688	48,520,688
2024 to 2028 *	27,687,500	2,906,988	30,594,488
	$ 92,377,500	$ 35,254,013	$ 127,631,513

* 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 $1,335,559 and $1,291,914 for the years ended December 31, 2013 and 2012, 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.

For the year ended December 31, 2013, Consolidated Surplus under the 1981 Lease was $3,836,293, ninety percent of which, or $3,452,664, is payable to the City as additional rent. No reserve was established by the Board of Directors from the Corporation's 2013 revenues to pay planning and design costs for the UN Consolidation Project as permitted under the 1981 Lease.

For the year ended December 31, 2012, the Board of Directors established a reserve from the Corporation's 2012 revenues of $3,577,663 to pay UN Consolidation Project planning and design costs. Consequently, there was no Consolidated Surplus for the year ended December 31, 2012 and no additional rent was payable to the City for 2012.

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, 2013, aggregate future minimum rentals under this ground lease approximated $16,500,000, 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 by September 30, 2016, 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 $11.3 million in 2014, $11.4 million in 2015, $11.0 million in 2016, $10.9 million in 2017 and $11.4 million in 2018.

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 by September 30, 2016, 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 $11.7 million in 2014, $11.3 million in 2015, $10.9 million in 2016, $10.2 million in 2017 and $10.8 million in 2018.

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 2013 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, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Total minimum lease payments to be received	$ 81,537,220	$ 88,060,198
Less: Unearned income	(47,594,828)	(53,389,577)
Less: Current portion of net investment in capital lease	(860,705)	(728,228)
Total net investment in capital lease (long-term)	$ 33,081,687	$ 33,942,393

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 $206,514 and $175,197 for the years ended December 31, 2013 and 2012, 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 $110,840 and $111,243 for the years ended December 31, 2013 and 2012, 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, 2013							
	Phase I		**Phase II**		**Phase III**		**Total**	
Office Space								
Revenues and income from capital lease	$ 15,300,279		$ 17,166,933		$ 9,311,827		$ 41,779,039	
Operating expenses	(5,904,772)	$ 9,395,507	(6,104,642)	$ 11,062,291	(4,062,080)	$ 5,249,747	(16,071,494)	$ 25,707,545
Fee Income-Tenant Alteration Work						60,444		60,444
Other Income (Note A)				1,049,944				1,049,944
Interest Income		92,739		92,878		46,363		231,980
Gross Revenues		9,488,246		12,205,113		5,356,554		27,049,913
General and Administrative Expenses		(955,678)		(946,481)		(482,568)		(2,384,727)
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				(1,537,866)				(1,537,866)
Net Revenues (Note B)		8,532,568		9,347,766		4,873,986		22,754,320
Base Rent to the City of New York (Note C)		(84,650)		(769,909)		(481,000)		(1,335,559)
Debt Service Requirements (Note D)		(3,095,825)		(4,014,013)		(2,466,100)		(9,575,938)
Net Revenues in Excess of Debt Service Requirements		$ 5,352,093		$ 4,563,844		$ 1,926,886		$ 11,842,823

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 2013 on the 2009 Bonds.