United Nations Development Corporation

Financial Statements (Together with Independent Auditors' Report)
For the Years Ended December 31, 2015 and 2014
and Supplemental Schedule
For the Year Ended December 31, 2015

MARKS PANETH
ACCOUNTANTS & ADVISORS

United Nations Development Corporation
Index of Financial Statements and Supplemental Schedule

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MARKS PANETH
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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, 2015 and 2014, 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, 2015 and 2014, and the respected 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information shown on pages 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
April 6, 2016

Overview of the Financial Statements

The following is an overview of the financial performance of the United Nations Development Corporation (the "Corporation") for the fiscal years ended December 31, 2015 and 2014. The Corporation's financial statements consist of three parts: (1) management's discussion and analysis, (2) the basic financial statements and (3) the notes to the financial statements.

The basic financial statements, which include the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows, are prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Summary Statement of Net Position

The summary statement of net position presents the financial position of the Corporation. The net position is the difference between (a) total assets and (b) total liabilities plus deferred inflows of resources. A summarized comparison of the Corporation's assets, liabilities, deferred inflows of resources, and net position at December 31, 2015, 2014 and 2013 follows:

Assets:	**2015**	**2014**	**2013**
Current assets	$ 23,316,754	$ 18,362,701	$ 15,004,565
Restricted assets	55,511,411	52,394,384	51,100,754
Property and equipment, net	44,065,960	61,464,358	64,038,692
Other noncurrent assets	30,860,786	32,064,131	33,081,687
Total assets	$ 153,754,911	$ 164,285,574	$ 163,225,698
Liabilities:			
Total current liabilities	$ 12,105,968	$ 15,030,058	$ 16,778,756
Long-term obligations, net of current portion	80,644,339	87,177,832	93,469,386
Total liabilities	92,750,307	102,207,890	110,248,142
Deferred inflows of resources			
Unamortized gain on bond refunding	1,424,701	1,685,117	1,963,178
Total deferred inflows of resources	1,424,701	1,685,117	1,963,178
Net position	59,579,903	60,392,567	51,014,348
Total liabilities, deferred inflows of resources and net position	$ 153,754,911	$ 164,285,574	$ 163,225,668

2015 vs. 2014

At December 31, 2015, the Corporation had total assets of $153.8 million, a decrease of $10.5 million from 2014. The decrease in total assets is attributable to an increase of $5.0 million in current assets and an increase of $3.1 million in restricted assets, offset by a decrease of $17.4 million in property and equipment and a decrease of $1.2 million in other noncurrent assets. The decrease in property and equipment is primarily attributable to a write-off of $14.4 million in development-in-progress costs as described in Note 4. 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 2015 primarily reflects additional deposits made in 2015 to pay for upcoming capital projects at the Corporation's properties. Other noncurrent assets for 2015 and 2014 include $30.9 million and $32.1 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2015 were $12.1 million, a decrease of $2.9 million from 2014. The decrease in current liabilities is due primarily to a decrease of $4.0 million in additional rent payable to the City of New York ("Additional City Rent") for 2015 as compared to 2014 under the Corporation's lease, offset by an increase of $348,000 in accounts payable and accrued expenses, and an increase of $628,000 in security deposits payable and unearned revenues. Long-term obligations, net of current portion, were $80.6 million at December 31, 2015, a decrease of $6.5 million from 2014, primarily due to the repayment of principal amounts on the 2009 Bonds.

Deferred inflows of resources at December 31, 2015 were $1.4 million, a decrease of $260,000 from 2014, reflecting the current year amortization of the unamortized gain on bond refunding.

2014 vs. 2013

At December 31, 2014, the Corporation had total assets of $164.3 million, an increase of $1.1 million from 2013. The increase in total assets is attributable to an increase of $3.4 million in current assets, an increase of $1.3 million in restricted assets, a decrease of $2.6 million in property and equipment, and a decrease of $1.0 million in other noncurrent assets. The increase in restricted assets for 2014 primarily reflects additional deposits made in 2014 to pay for upcoming capital projects. Other noncurrent assets for 2014 and 2013 include $32.1 million and $33.1 million, respectively, attributable to the Corporation's net investment in the capital lease with UNICEF at Three UN Plaza.

Current liabilities at December 31, 2014 were $15.0 million, a decrease of $1.7 million from 2013, reflecting $4.0 million in Additional City Rent for 2014 under the Corporation's lease, and a decrease of $2.3 million in accounts payable and accrued expenses. Long-term obligations, net of current portion, were $87.2 million at December 31, 2014, a decrease of $6.3 million from 2013, primarily due to the repayment of principal amounts on the 2009 Bonds.

Deferred inflows of resources at December 31, 2014 were $1.7 million, a decrease of $300,000 from 2013, reflecting the current year amortization of the unamortized gain on bond refunding.

Statements of Revenues, Expenses and Changes in Net Position

The following is a summary of the Corporation's revenues, expenses, and changes in net position for the years ended December 31, 2015, 2014 and 2013.

	2015	2014	2013	2015 vs. 2014 (%)	2014 vs. 2013 (%)
Total operating revenues	$ 43,452,119	$ 43,684,756	$ 42,889,427	-1%	2%
Total operating expenses	26,528,500	30,769,085	30,236,423	-14%	2%
Operating income	16,923,619	12,915,671	12,653,004		
Nonoperating revenues (expenses):					
Interest income	125,200	83,006	245,006	51%	-66%
Interest expense	(3,418,519)	(3,640,813)	(3,856,548)	-6%	-6%
Write-off of development-in-progress costs	(14,388,849)	-	-		
Unrealized gain (loss) on restricted assets	(54,115)	20,355	(186,408)	-366%	111%
Total nonoperating expenses	(17,736,283)	(3,537,452)	(3,797,950)	401%	-7%
Change in net position	(812,664)	9,378,219	8,855,054		
Net position, beginning of year	60,392,567	51,014,348	42,159,294	18%	21%
Net position, end of year	$ 59,579,903	$ 60,392,567	$ 51,014,348	-1%	18%

Operating Revenues. Operating revenues for the years ended December 31, 2015, 2014 and 2013 totaled $43.5 million, $43.7 million and $42.9 million, respectively. The decrease in operating revenues for 2015 as compared to 2014 was due primarily to a decrease in operating expenses in 2015 that were a pass-through to tenants in 2015 under the Corporation's leases. The increase in operating revenues for 2014 over 2013 was due primarily to scheduled rent increases under the UN's leases at One and Two UN Plaza and an increase in operating expenses that were a pass-through to tenants under the leases.

The office space in One and Two UN Plaza is leased principally to the United Nations and foreign missions to the United Nations. UNICEF leases all of the space in Three UN Plaza for use as its world headquarters.

Operating Expenses. Operating expenses for the years ended December 31, 2015, 2014 and 2013 totaled $26.5 million, $30.8 million and $30.2 million, respectively. The decrease in operating expenses for 2015 as compared to 2014 primarily reflects a decrease of $4.0 million in Additional City Rent payable for 2015.

The increase in operating expenses for 2014 as compared to 2013 reflects the payment of $4.2 million in Additional City Rent for 2014, an increase from $3.5 million paid for 2013, offset by a decrease in building operating expenses in 2014 as compared to 2013.

Nonoperating Expenses. Total nonoperating expenses for the years ended December 31, 2015, 2014 and 2013 were $17.7 million, $3.5 million and $3.8 million, respectively. Total nonoperating expenses for 2015 include the write-off of all development-in-progress costs of $14.4 million related to the UN Consolidation Building, as described in Note 4.

Interest income in 2015 was $125,200, an increase of $42,194 compared to 2014, reflecting an increase in investment balances and higher interest rates paid in 2015 as compared to 2014. Interest income in 2014 was $83,006, a decrease of $162,000 compared to 2013, reflecting lower investment yields in 2014 as compared to 2013.

Change in Net Position. The total net position at December 31, 2015, 2014 and 2013 was $59.6 million, $60.4 million and $51.0 million, respectively.

The Corporation issued the 2009 Refunding Bonds, Series A (the "2009 Bonds") on October 29, 2009 at a face amount of $111,475,000. The bond ratings at that time were A1 (Moody's) and A+ (Fitch) both of which have remained unchanged.

The 2009 Bonds which pay semiannual interest on January 1 and July 1 at various rates are subject to mandatory annual redemption of stated principal amounts on July 1. The balance of the 2009 Bonds as of December 31, 2015 was $80,215,000.

United Nations Development Corporation
Statements of Net Position

	As of December 31, 2015	As of December 31, 2014
Assets:		
Current assets:		
Cash and cash equivalents (Note 2)	$ 15,829,952	$ 14,365,910
Accounts receivable, less allowance for doubtful accounts of $3,700 in 2015 and 2014	2,814,494	326,583
Current portion of net investment in capital lease (Note 6)	1,203,345	1,017,557
Prepaid expenses and other assets, net	3,468,963	2,652,651
Total current assets	23,316,754	18,362,701
Noncurrent assets:		
Restricted assets (Note 3)	55,511,411	52,394,384
Net investment in capital lease, less current portion (Note 6)	30,860,786	32,064,131
Property and equipment, net (Note 4)	44,065,960	61,464,358
Total noncurrent assets	130,438,157	145,922,873
Total assets	$ 153,754,911	$ 164,285,574
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,588,780	$ 3,240,555
Security deposits payable and unearned revenues	884,244	256,657
	4,473,024	3,497,212
Current liabilities (payable from restricted assets):		
Rent payable to the City of New York (Note 6)	-	4,023,902
Accrued interest payable	1,947,944	2,073,944
Current portion of long-term debt	5,685,000	5,435,000
	7,632,944	11,532,846
Total current liabilities	12,105,968	15,030,058
Noncurrent liabilities:		
Long-term obligations, net of current portion (Note 5)	80,644,339	87,177,832
Total noncurrent liabilities	80,644,339	87,177,832
Total liabilities	92,750,307	102,207,890
Deferred inflows of resources:		
Unamortized gain on bond refunding	1,424,701	1,685,117
Total deferred inflows of resources	1,424,701	1,685,117
Net position:		
Invested in capital assets, net of related debt	(3,246,609)	(5,114,740)
Restricted	35,791,283	27,505,917
Unrestricted	27,035,229	38,001,390
Total net position	59,579,903	60,392,567
Total liabilities, deferred inflows of resources and net position	$ 153,754,911	$ 164,285,574

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, 2015	2014
Operating revenues:		
Office space	$ 33,437,579	$ 33,206,160
Capital lease	8,713,177	9,308,823
Other income	1,301,363	1,169,773
Total operating revenues	43,452,119	43,684,756
Operating expenses:		
Administrative salaries and employee benefits	1,938,653	2,001,476
Property manager's reimbursable salaries and employee benefits	2,694,353	2,621,254
Other operating costs	12,839,091	13,102,358
Depreciation and amortization (Note 2)	5,343,857	5,432,877
Rent and real estate taxes (Note 6)	3,413,840	7,287,644
Management fees	70,613	68,226
Professional fees	228,093	255,250
Total operating expenses	26,528,500	30,769,085
Operating income	16,923,619	12,915,671
Nonoperating revenues (expenses):		
Interest income	125,200	83,006
Interest expense (Note 5)	(3,418,519)	(3,640,813)
Write-off of development-in-progress costs (Note 4)	(14,388,849)	-
Unrealized gain (loss) on restricted assets (Note 3)	(54,115)	20,355
Total nonoperating (expenses)	(17,736,283)	(3,537,452)
Change in net position	(812,664)	9,378,219
Net position, beginning of year	60,392,567	51,014,348
Net position, end of year	$ 59,579,903	$ 60,392,567

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,	
	2015	**2014**
Cash flows from operating activities:		
Receipts from tenants	$ 40,964,208	$ 44,257,146
Payments to suppliers	(14,479,548)	(15,008,978)
Payments for rent and real estate taxes	(7,435,305)	(6,740,610)
Payments to employees for salaries and benefits	(4,602,763)	(4,667,400)
Other payments	(2,746,319)	(4,802,048)
Net cash provided by operating activities	11,700,273	13,038,110
Cash flows from financing activities:		
Decrease in long-term obligations	(382,540)	(382,540)
Repayments of principal of long-term debt	(5,435,000)	(5,190,000)
Net cash used in financing activities	(5,817,540)	(5,572,540)
Cash flows from investing activities:		
Increase in restricted assets	(2,153,585)	(412,571)
Capital expenditures for properties	(2,265,106)	(2,789,341)
Net cash used in investing activities	(4,418,691)	(3,201,912)
Net increase in cash and cash equivalents	1,464,042	4,263,658
Cash and cash equivalents, beginning of year	14,365,910	10,102,252
Cash and cash equivalents, end of year	$ 15,829,952	$ 14,365,910
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	$ (812,664)	$ 9,378,219
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation and amortization	4,617,488	4,680,802
Unrealized loss (gain) on restricted assets	54,115	(20,355)
Partial write-off of development-in-progress costs	14,388,849	
Changes in operating assets and liabilities:		
Accounts and accrued interest receivable, net	(2,487,911)	572,390
Prepaid expenses and other assets	(885,514)	420,782
Accounts payable, accrued expenses and interest payable	(3,801,677)	(1,857,935)
Security deposits payable and unearned revenues	627,587	(135,793)
Net cash provided by operating activities	$ 11,700,273	$ 13,038,110

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 ("UN") related activities within a defined "United Nations development district" in the vicinity of UN Headquarters in New York City.

The Corporation's major development projects since its establishment are as follows:

One United Nations Plaza

In 1976, the Corporation completed construction of a 39-story office building and hotel (the "Hotel") at One United Nations Plaza ("One UN Plaza") as part of the Phase I project, which included the buildings at 763 and 765 United Nations Plaza (together, "Phase I"). The buildings at 763 and 765 United Nations Plaza were sold in April 1999 and September 2000, respectively. In 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 principally to the UN and foreign missions to the UN.

Two United Nations Plaza

In 1984, the Corporation completed construction of a 40-story office building-hotel at Two United Nations Plaza ("Phase II" or "Two UN Plaza"). In 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 principally to the UN and foreign missions to the UN.

Three United Nations Plaza

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

2. Significant Accounting Principles

Basis of accounting

The Corporation uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"), as prescribed by the Governmental Accounting Standards Board ("GASB"). GASB is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits that are either federally insured or collateralized with short-term investments in U.S. Government obligations with an original maturity of three months or less when acquired. All securities held by custodian as collateral are registered and are held in the Corporation's name.

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.

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

GASB Statement No. 72, "Fair Value Measurement and Application" ("GASB 72"), defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under GASB 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The new standard is effective for financial statements for periods beginning after June 15, 2015; however, the Corporation has early adopted GASB 72 during the year ended December 31, 2015. Accordingly, the Corporation has disclosed the hierarchy of valuation inputs and techniques in Note 3 to the financial statements.

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68" ("GASB 73"), is effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. GASB 73 establishes requirements that will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. GASB 73 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other than Pensions" ("GASB 74"), is effective for fiscal years beginning after June 15, 2016. GASB 74 establishes requirements that will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB 74 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Other than Pensions" ("GASB 75"), is effective for fiscal years beginning after June 15, 2017. GASB 75 requires the liability of employers and non-employer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. GASB 75 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles ("GAAP") for State and Local Governments" ("GASB 76"), is effective for fiscal years beginning after June 15, 2015. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. GASB 76 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 77, "Tax Abatement Disclosures" ("GASB 77") is effective for fiscal years beginning after December 15, 2015. GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. GASB 77 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" ("GASB 78") is effective for fiscal years beginning after December 15, 2015. GASB 78 amends the scope and applicability of Statement 68 to exclude pensions provide to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). GASB 78 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 79, "Certain External Investment Pools and Pool Participants" ("GASB 79") is effective for fiscal years beginning after December 15, 2015. GASB 79 will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. GASB 79 is not expected to have an impact on the Corporation's financial statements.

GASB Statement No. 80, "Blending Requirements for Certain Component Units" ("GASB 80"), is effective for fiscal years beginning after June 15, 2016. GASB 80 is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. GASB 80 is not expected to have an impact on the Corporation's financial statements.

3. Investments and restricted assets and fair value measurements

All investments are carried at fair value. Certain accounts are funded by the Corporation as required under the Indenture for the 2009 Bonds (as such terms are defined in Note 5). Such accounts are classified as restricted assets and consist of investments in U.S. Treasury Securities. Accounts funded under the Indenture are held as trust assets in the Corporation's name by The Bank of New York Mellon, as the Corporation's trustee and custodian under the Indenture.

The Corporation's permitted investments under the Indenture include: (i) obligations to which the faith and credit of the U.S. government are pledged; (ii) obligations, the payment of the principal of and interest on which are unconditionally guaranteed by the U.S. government; (iii) direct and general obligations of any state or political subdivision provided that such obligations are rated in either of the two highest rating categories by Moody's Investors Service ("Moody's"); (iv) bonds, debentures, participation certificates or notes issued by entities named in the Indenture (including

Federal Home Loan Banks, Fannie Mae, Ginnie Mae or Freddie Mac); (v) Public Housing Bonds, Temporary Notes or Preliminary Loan Notes fully secured by contracts with the United States; (vi) certificates of deposit issued by banks in the State of New York having capital stock and surplus of more than $50 million and rated at least A by Moody's and another nationally recognized rating agency, or fully secured by direct obligations of or obligations guaranteed by the U.S. government; (vii) repurchase agreements secured by any one or more of the securities described in clauses (i) through (iv) above; (viii) obligations of any corporation organized under the laws of any state in the United States maturing within two-hundred-seventy days, rated 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, 2015 and 2014 included in the statements of net position were as follows:

	December 31, 2015		
	Cost	Fair Value	Weighted average maturity (years) (a)
U.S. Treasury securities:			
Treasury Notes	$ 53,305,872	$ 53,052,304	0.90
Total U.S. Treasury Securities	53,305,872	53,052,304	
Total Investments	53,305,872	53,052,304	
Cash and cash equivalents	2,459,107	2,459,107	
Total restricted assets	$ 55,764,979	$ 55,511,411	

	December 31, 2014		
	Cost	Fair Value	Weighted average maturity (years) (a)
U.S. Treasury securities:			
Treasury Notes	$ 48,882,507	$ 48,683,054	0.85
Total U.S. Treasury Securities	48,882,507	48,683,054	
Total Investments	48,882,507	48,683,054	
Cash and cash equivalents	3,711,330	3,711,330	
Total restricted assets	$ 52,593,837	$ 52,394,384	

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

The Corporation categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Corporation had the following recurring fair value measurements as of December 31, 2015 and 2014:

- U.S. Treasury securities of $53,052,304 and $48,683,054, respectively, are valued using quoted market prices (Level 1 inputs).

4. Property and equipment

Property and equipment consisted of the following as of December 31, 2015 and 2014:

	Balance at January 1, 2015	Additions 2015	Deletions 2015	Balance at December 31, 2015
Land	$ 3,823,597	$ -	$ -	$ 3,823,597
Building and building improvements	140,153,816	1,778,036	-	141,931,852
Furniture, fixtures and equipment	1,316,211	24,188	-	1,340,399
Development-in-progress	13,925,967	462,882	(14,388,849)	-
	159,219,591	2,265,106	(14,388,849)	147,095,848
Less: accumulated depreciation and amortization	(97,755,233)	(5,274,655)	-	(103,029,888)
Property and equipment, net	$ 61,464,358	$ (3,009,549)	$ (14,388,849)	$ 44,065,960

	Balance at January 1, 2014	Additions 2014	Deletions 2014	Balance at December 31, 2014
Land	$ 3,823,597	$ -	$ -	$ 3,823,597
Building and building improvements	137,587,004	2,566,812	-	140,153,816
Furniture, fixtures and equipment	1,290,491	25,720	-	1,316,211
Development-in-progress	13,729,158	196,809	-	13,925,967
	156,430,250	2,789,341	-	159,219,591
Less: accumulated depreciation and amortization	(92,391,558)	(5,363,675)	-	(97,755,233)
Property and equipment, net	$ 64,038,692	$ (2,574,334)	$ -	$ 61,464,358

The Corporation has discussed with the UN for a number of years, most recently since 2011, the financing and construction by the Corporation of the UN Consolidation Building, a new build-to-suit office building for exclusive UN use along First Avenue and across 42nd Street from the UN Headquarters. If constructed, the Consolidation Building would assist the UN in meeting its space needs in the City by allowing the UN to consolidate in one location certain office space leased at multiple buildings on the east side of Manhattan.

State legislation enacted in 2011 and a Memorandum of Understanding signed by the Mayor and State legislative leaders authorize the Corporation to finance and construct the Consolidation Building, subject to specified conditions, including a deadline for financing the project, which was extended in July 2015 from December 2015 to December 2019.

In reports to the UN General Assembly, the UN Secretary General has recommended that the UN pursue the Consolidation Building. The UN General Assembly and its committees, however, have deferred decisions on the Secretary General's recommendation, and did so once again at the end of 2015. These actions mean that either the financing and construction of the Consolidation Building may not occur for a number of years or that the project may not proceed at any time.

The Corporation had capitalized in its financial statements as part of property and equipment the Corporation's development-in-progress costs for the Consolidation Building project, which totaled $14,388,849 through December 31, 2015. Due to the actions of the UN General Assembly and its committees, the Corporation has written off all of the $14,388,849 in development-in-progress costs included as part of property and equipment as of December 31, 2015 as these costs are not reasonably certain to have continuing value given the continued delays in the project and uncertainty as to whether the project will proceed.

5. Long-Term Debt

Long-term debt as of December 31, 2014 and 2015 was as follows:

	Balance at January 1, 2014	Additions/ Deletions 2014	Balance at December 31, 2014	Additions/ Deletions 2015	Balance at December 31, 2015
Bonds of 2009, Series A	$ 90,840,000	$ (5,190,000)	$ 85,650,000	$ (5,435,000)	$ 80,215,000
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
	92,377,500	(5,190,000)	87,187,500	(5,435,000)	81,752,500
Add:					
Unamortized bond premium	3,891,013	(474,014)	3,416,999	(465,953)	2,951,046
	96,268,513	(5,664,014)	90,604,499	(5,900,953)	84,703,546
Other long-term liabilities	2,773,413	(382,540)	2,390,873	(382,540)	2,008,333
Less:					
Current portion of long-term debt	(5,190,000)	(245,000)	(5,435,000)	(250,000)	(5,685,000)
Current portion of other long-term obligations	(382,540)	-	(382,540)	-	(382,540)
Long-term obligations, net of current portion	$ 93,469,386	$ (6,291,554)	$ 87,177,832	$ (6,533,493)	$ 80,644,339

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 $465,953 for 2015 and $474,014 for 2014, 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,			
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	6,565,000	3,136,988	9,701,988
2020	6,890,000	2,812,237	9,702,237
2021 to 2025 *	40,980,000	8,793,200	49,773,200
2026 to 2028	9,412,500	525,250	9,937,750
	$ 81,752,500	$ 26,468,237	$ 108,220,737

* Represents total amounts for the five-year period.

6. Leases

<u>As Lessee</u>:

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 UN, missions to the UN or used as a community facility. The Corporation's base rent on account of Three UN Plaza is fixed at $481,000 annually through the expiration of the City Leases. Total base rent under the City Leases was $1,579,345 and $1,451,374 for the years ended December 31, 2015 and 2014, 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 2016, in connection with the year ended December 31, 2015, the Board of Directors established a reserve from the Corporation's 2015 revenues of $6,143,025, the Consolidated Surplus under the 1981 Lease, to cover additional costs for the installation of new façade maintenance systems at One and Two UN Plaza or for other capital improvements projects, as permitted under the 1981 Lease. Consequently, there was no Consolidated Surplus for the year ended December 31, 2015 and no additional rent was payable to the City for 2015.

In March 2015, in connection with the year ended December 31, 2014, the Board of Directors established a reserve of $5.0 million from the Corporation's 2014 revenues of $12,667,811 to cover costs for the installation of new façade maintenance systems at One and Two UN Plaza or for other capital improvements projects, as permitted under the 1981 Lease. No reserve was established by the Board of Directors from the Corporation's 2014 revenues to pay planning and design costs for the Consolidation Building as permitted under the 1981 Lease. Consequently, the Consolidated Surplus under the 1981 Lease for 2014 was $4,471,002, ninety percent of which, or $4,023,902, was payable to the City as additional rent.

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, 2015, aggregate future minimum rentals under this ground lease approximated $16,000,000, assuming the Corporation does not exercise the purchase option.

<u>As Lessor</u>:

Phase I

The office space in One UN Plaza is leased principally to the UN and missions to the UN, and a portion of the ground floor of the building is leased to a retail tenant. The One UN Plaza lease expires on March 31, 2018, subject to the UN's right, exercisable by September 30, 2016, to extend the lease through March 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 of tenant renewal options). Fixed minimum rents under the One UN Plaza leases, excluding operating expense escalations, will be approximately $11.5 million in 2016, $11.4 million in 2017, $11.9 million in 2018, $12.0 million in 2019 and $12.2 million in 2020.

Phase II

The office space in Two UN Plaza is leased principally to the UN and missions to the UN. The Two UN Plaza lease expires on March 31, 2018, subject to the UN's right, exercisable by September 30, 2016, to extend the lease through March 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 of tenant renewal options). Fixed minimum rents under the Two UN Plaza leases, excluding operating expense escalations, will be approximately $11.8 million in 2016, $10.7 million in 2017, $11.0 million in 2018, $11.1 million in 2019 and $11.1 million in 2020.

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.

UNICEF's annual base rent, exclusive of operating expense escalations, in 2015 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, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Total minimum lease payments to be received	$ 68,491,265	$ 75,014,243
Less: Unearned income	(36,427,134)	(41,932,555)
Less: Current portion of net investment in capital lease	(1,203,345)	(1,017,557)
Total net investment in capital lease (long-term)	$ 30,860,786	$ 32,064,131

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 $177,158 and $204,139 for the years ended December 31, 2015 and 2014, respectively.

The Corporation also funds a deferred compensation plan for employees under Section 457(b) of the Internal Revenue Code. Contributions to the 457(b) Plan were $80,409 and $89,130 for the years ended December 31, 2015 and 2014, 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, 2015

	Phase I		**Phase II**		**Phase III**		**Total**	
Office Space								
Revenues and income from capital lease	$ 15,841,765		$ 17,595,814		$ 8,713,177		$ 42,150,756	
Operating expenses	(5,829,695)	$ 10,012,070	(5,666,813)	$ 11,929,001	(3,825,408)	$ 4,887,769	(15,321,916)	$ 26,828,840
Fee Income-Tenant Alteration Work						30,943		30,943
Other Income (Note A)				1,270,420				1,270,420
Interest Income		45,407		45,407		22,704		113,518
Gross Revenues		10,057,477		13,244,828		4,941,416		28,243,721
General and Administrative Expenses		(1,019,614)		(990,763)		(507,709)		(2,518,086)
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				(1,584,495)				(1,584,495)
Net Revenues (Note B)		9,037,863		10,296,570		4,433,707		23,768,140
Base Rent to the City of New York (Note C)		(91,398)		(1,006,947)		(481,000)		(1,579,345)
Debt Service Requirements (Note D)		(3,169,493)		(3,999,071)		(2,414,324)		(9,582,888)
Net Revenues in Excess of Debt Service Requirements		$ 5,776,972		$ 5,290,552		$ 1,538,383		$ 12,605,907

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 2015 on the 2009 Bonds.