

TOWER PROPERTIES COMPANY AND SUBSIDIARIES
DISCLOSURE FOR FISCAL YEAR ENDED DECEMBER 31, 2014

TOWER PROPERTIES COMPANY
1000 Walnut Street, Suite 900, Kansas City, MO 64106
Telephone: 816-421-8255, Fax 816-374-0611
Website Address: towerproperties.com

Transfer Agent:
Computershare Trust Company
P.O. Box 30170
College Station, TX 77845-3170
(regular mail)

For Online Access of Quarterly and Annual Disclosure Reports: otcmarkets.com Symbol: TPRP

DIRECTORS

Jonathan M. Kemper

Non-Executive Chairman of Tower Properties Company, Vice Chairman, Commerce Bancshares, Inc., a bank holding company, Vice Chairman, Commerce Bank, a Missouri Banking Corporation.

Thomas R. Willard

President and Chief Executive Officer of Tower Properties Company

David W. Kemper

Chairman and Chief Executive Officer, Commerce Bancshares, Inc., a bank holding company, Chairman and Chief Executive Officer, Commerce Bank, a Missouri Banking Corporation

William E. Quirk

Attorney and Shareholder, Polsinelli PC, a law firm

John W. Kemper

President and Chief Operating Officer, Commerce Bancshares, Inc., a bank holding company, President, Commerce Bank, a Missouri Banking Corporation.

OFFICERS

Thomas R. Willard

President and Chief Executive Officer

Stanley J. Weber

Chief Financial Officer, Vice President, Treasurer and Secretary

Margaret V. Schroeder

Vice President, Asst. Secretary and Controller

Christopher B. Erdley

Vice President

General Development of Business:

In September 1989, Tower Properties Company (“Tower”) formed Tower Acquisition Corp. (“TAC”), a wholly-owned subsidiary of Tower. TAC was formed pursuant to the terms of a merger between Tower and Commerce Bancshares, Inc. (“Commerce”), a bank holding company. Tower spun off certain assets and liabilities to TAC with a net book value of approximately \$17,500,000. Tower then merged with Commerce on January 29, 1990. In connection with the merger, each Tower shareholder received 7.88 shares of Commerce in exchange for each Tower share. TAC's capital stock was distributed to Tower's shareholders on January 29, 1990 in the form of a stock dividend. TAC's name was changed to Tower Properties Company (“the Company”) on this same date. The net assets distributed to TAC represent the origination of the assets currently owned and managed by the Company.

A private letter ruling was obtained from the IRS that the distribution was tax-free under Section 355 of the Internal Revenue Code and the merger constituted a tax-free reorganization under Section 368(a)(1)(A) of the Internal Revenue Code.

Description of the Company's Business

The Company is primarily engaged in the business of owning, developing, leasing and managing real property. All real estate assets are located in Douglas and Johnson Counties in Kansas, and Clay and St. Louis Counties in Missouri. Substantially all the improved real estate owned by the Company consists of office buildings, apartment complexes, a warehouse/office facility and land held for future sale or development. The Company has not pursued a policy of acquiring real estate on a speculative basis for future sale, although some real estate owned by the Company may be sold at some future time.

The Company's leasing operations provided rental income constituting approximately 94 percent of the 2014 revenues. The remaining 6 percent of 2014 revenues include management and service fees (4 percent), and interest and other income (2 percent). The Company competes with other building owners in the renting and leasing of office building space and apartment housing. The Company employed 67 persons on a full-time basis and 9 persons on a part-time basis at December 31, 2014.

The Company leases rental space and parking and provides services to Commerce Bancshares, Inc. and its affiliates. The annual aggregate rental and service fees paid to the Company by Commerce will vary depending upon the space occupied and services provided. For the years ended December 31, 2014, 2013 and 2012, the Company received rent, parking and fees of \$1,429,644, \$787,848 and \$1,174,414, respectively, from Commerce. The Company was also reimbursed by Commerce for labor and construction costs initially funded by the Company on behalf of Commerce in the amount of \$9,663,367, \$4,511,763, and \$6,529,822 in 2014, 2013 and 2012, respectively.

Liquidity and Capital Resources

The principal source of funds generated internally is income from operations. The principal source of external funds is long-term debt and a \$13,500,000 loan (“Line of Credit”) with Commerce Bank, a Missouri banking Corporation. The Line of Credit was renewed on June 1, 2014 and is collateralized by 233,796 shares of Commerce Bancshares, Inc. common stock. As further discussed in Paragraph #5

“Sales and Donation of Properties and Acquisitions”, real estate in downtown Kansas City that was collateral for the Line of Credit was sold on October 30, 2012. After the sale of real estate on October 30, 2012, the revised maximum amount that may be borrowed on the Line of Credit at December 31, 2014 is approximately \$8,000,000. At December 31, 2014, the Company had \$1,250,000 of outstanding borrowings on the Line of Credit. The Company had approximately \$6,750,000 available under the Line of Credit at December 31, 2014. The Company does not utilize off-balance sheet financing.

Management believes that the Company’s current combination of liquidity, capital resources and borrowing capabilities will be adequate for its existing operations during fiscal 2015. The Company did not experience liquidity problems during the year ended December 31, 2014. The Company does not anticipate any deficiencies in meeting its near term liquidity needs. The availability under the Line of Credit along with cash provided from operations is expected to give the Company adequate resources to meet the Company’s cash requirements for 2015. If necessary, the Company believes it has adequate resources to collateralize additional financing. The Company had cash and cash equivalents of \$2,043,000 at December 31, 2014. The Company’s revenues are primarily based on lease contracts, none of which are deemed to be materially at risk.

Real Property Owned by Company

The Company considers all our properties to be in investment grade condition.

The Barkley Place, a 6-story 98,000 rentable square foot office building located in Overland Park, Kansas. The building was completed in 1988. The Company purchased the building on July 15, 1994. The building is presently 93 percent leased. The building is subject to a mortgage deed of trust securing a loan with a balance owing of \$6,466,544 at December 31, 2014.

7911 Forsyth, a 6-story 55,000 rentable square foot office building with covered parking on five levels plus surface parking on top of the attached garage located in Clayton, Missouri. The building was completed in 1985. The Company purchased the building on December 1, 1998. The building is presently 74 percent leased. The building is owned in fee.

Woodlands Plaza I, a 3-story 93,500 rentable square foot office building with surface parking for 348 cars located at 11720 Borman Drive, St. Louis, Missouri. The building was built in 1981 and renovated in 1998. The Company purchased the building on December 29, 2000. The building is presently 100 percent leased to a single tenant under a lease expiring in 2017. The building is subject to a mortgage deed of trust securing a loan with a balance owing of \$3,420,330 at December 31, 2014.

6601 College Boulevard, a 6-story 101,200 rentable square foot office building, located in Overland Park, Kansas. The building was completed in 1979. The Company purchased the building on December 15, 1995. The building is presently 100 percent leased to a single tenant under a triple net lease expiring in 2015. The building is subject to a mortgage deed of trust securing a loan with a balance owing of \$655,853 at December 31, 2014.

A warehouse/office facility, located at 9200 Cody, Overland Park, Kansas. The building contains approximately 49,000 square feet of office space and 71,900 square feet of warehouse space. The

building was constructed in 1973, with an addition in 1976 and an expansion completed in 1997. In 2010 the building was renovated, which included some of the warehouse space being converted to office space. The Company purchased the facility on June 30, 1995. The building is presently 100 percent leased to a single tenant under a triple net lease expiring in 2016. The warehouse/office facility is subject to a mortgage deed of trust securing a loan with a balance owing of \$187,280 at December 31, 2014. The expansion is subject to a mortgage deed of trust securing a loan with a balance owing of \$81,803 at December 31, 2014.

The One and Two Liberty Plaza buildings, two 2-story office buildings totaling approximately 54,000 square feet and surrounding surface parking lots located in Liberty, Missouri. Building One was completed in 1981 and Building Two was completed in 1984. The Company purchased the buildings on March 2, 2005. The buildings are presently 100 percent leased to a single tenant under a triple net lease expiring in 2025. The buildings are subject to a mortgage deed of trust securing a loan with a balance owing of \$2,473,655 at December 31, 2014.

The 10955 Lowell Building (Building 20), a 10-story 112,000 square foot office building located in Overland Park, Kansas. The building was completed in 1983. The Company purchased the building on July 1, 2005. The building is presently 100 percent leased. The building is subject to a mortgage deed of trust securing a loan with a balance owing of \$7,407,772 at December 31, 2014.

The 7400 Place Building, a 2-story 47,000 rentable square foot office building with a total of 177 parking spaces, 36 of which are in a one-story basement parking structure located at 7400 State Line, Prairie Village, Kansas. The building was completed in 1986. The Company purchased the building on December 15, 2006. The building is presently 100 percent leased. The building is subject to a mortgage deed of trust securing a loan with a balance owing of \$3,238,779 at December 31, 2014.

The Corinth Office Building, a 2-story, above ground plus a lower level office building totaling 48,000 rentable square feet with a total of 140 surface parking spaces, located at 8340 Mission Road, Prairie Village, Kansas. The building was completed in 1965. The Company purchased the building on June 20, 2008. The building is presently 92 percent leased. The Corinth Executive Building, a 2-story 50,000 rentable square foot office building with a total of 235 surface parking spaces located at 4121 W. 83rd Street, Prairie Village, Kansas. The building was completed in 1973. The Company purchased the building on June 20, 2008. The building is presently 97 percent leased. The Somerset Building, a 2-story 43,000 rentable square foot office building with a total of 180 surface parking spaces located at 4200 Somerset, Prairie Village, Kansas. The building was completed in 1978. The Company purchased the building on June 20, 2008. The building is presently 99 percent leased. These three buildings are subject to a mortgage deed of trust securing a loan with a balance owing of \$6,121,989 at December 31, 2014.

A 45-building, 622-unit apartment complex, on a 49.8-acre tract, located near New Mark Drive, North Oak and North Cherry in Kansas City North, Missouri called New Mark. Construction of the first phase was completed in 1971, completion of the second phase in 1978, completion of the third phase in 1998, completion of the fourth phase in 1999, and completion of the fifth phase (Oakbrook) in 2003. The apartments are presently 95 percent leased. The original 210 unit apartments, Phase I and Phase II, and the 140 units of Phase III are subject to a mortgage deed of trust securing a loan with a balance owing of

\$9,362,138 December 31, 2014. The 24 units, Phase IV, are subject to a mortgage deed of trust securing a loan with a balance owing of \$282,207 at December 31, 2014. The Oakbrook 248 units, the associated 8 garage buildings (108 parking spaces) and the 5,000 sq. ft. clubhouse and pool are subject to a mortgage deed of trust securing a loan balance owing of \$8,840,396 at December 31, 2014.

The Company has approximately 30 acres of undeveloped land held for sale located in Kansas City North, Missouri, near the New Mark apartment complex owned by the Company. The tract is owned in fee.

A 24-building, 329-unit apartment complex, on a 30.3-acre tract, located at 5401 Fox Ridge Drive in Mission, Kansas called Hillsborough. Construction of the initial complex was completed in 1985, with an addition of 7 buildings in 1996. The Company purchased the complex on December 31, 1992. The apartments are presently 95 percent leased. The 329 units are subject to a mortgage deed of trust securing a loan with a balance owing of \$14,271,934 at December 31, 2014.

A 12-building, 262-unit apartment complex, on a 14.34-acre tract located at 6800 Antioch in Merriam, Kansas called Peppertree. Construction of the initial complex was completed in 1987, with an addition of 5 buildings in 2009. The Company purchased the complex on September 30, 1993. The apartments are presently 97 percent leased. The initial 162 apartments are subject to a mortgage deed of trust securing a loan with a balance owing of \$3,032,929 at December 31, 2014. The 100 apartments added in 2009 and the associated 3 garage buildings (18 parking spaces) and the 7 carport structures (52 parking spaces) are subject to a mortgage deed of trust securing a loan with a balance owing of \$5,300,000 at December 31, 2014. On November 18, 2014, a loan modification was entered into which increased the loan balance from \$4,677,682 to \$5,300,000 and reduced the interest rate on the loan from 5.2% to 4.1%.

A 6-building, 51-unit apartment complex, on a 3.1-acre tract, located at 2201 Harper Street in Lawrence, Kansas called Harper Square. Construction of the initial 4-building complex was completed in 1994, with an addition of 2 buildings in 2003. The Company purchased the complex on June 30, 2011. The apartments are presently 100 percent leased. The 51 units are subject to a mortgage deed of trust securing a loan with a balance owing of \$1,480,145 at December 31, 2014.

A 111-building, 212-unit apartment complex, on a 35.6-acre tract, located at 3401 Hutton Drive in Lawrence, Kansas called Hutton Farms. Construction of the complex was completed in 2004. The Company purchased the complex on June 30, 2011. The apartments are presently 96 percent leased. The 212 units are subject to a mortgage deed of trust securing a loan with a balance owing of \$18,499,862 at December 31, 2014.

A 16-building, 148-unit apartment complex, on a 9.6-acre tract, located at 2600 W. 6th St. in Lawrence, Kansas called Tuckaway. Construction of the initial 15-building complex was completed in 1997, with an addition of 1 building in 2004. The Company purchased the complex on June 30, 2011. The apartments are presently 99 percent leased. The 148 units are subject to a mortgage deed of trust securing a loan with a balance owing of \$7,562,615 at December 31, 2014.

A 9-building, 49-unit apartment complex, on a 4.3-acre tract, located at 4241 Briarwood Drive in Lawrence, Kansas called Briarwood. Construction of the complex was completed in 2002. The Company purchased the complex on June 30, 2011. The apartments are presently 94 percent leased. The 49 units are subject to a mortgage deed of trust securing a loan with a balance owing of \$2,590,254 at December 31, 2014.

A 35-building, 263-unit apartment complex, on a 22.7-acre tract, located at 7110 Lackman Road and 7150 Lackman Road in Shawnee, Kansas called Tuckaway at Shawnee. Construction of the initial 17-building complex was completed in 1999, with an addition of 18 buildings in 2000. The Company purchased the complex on November 1, 2012. The apartments are presently 96 percent leased. The 263 units are subject to a mortgage deed of trust securing a loan with a balance owing of \$16,876,744 at December 31, 2014.

A 7-building, 208-unit apartment complex, on a 14.9-acre tract, located at 19501 W. 102nd Street in Lenexa, Kansas called Dunes at Falcon Valley Apartments. Construction of the complex was completed in 2008. The Company purchased the complex on May 13, 2014. The apartments are presently 90 percent leased. The 208 units are subject to a mortgage deed of trust securing a loan with a balance owing of \$17,515,662 at December 31, 2014.

**PRINCIPAL REAL ESTATE OWNED BY
TOWER PROPERTIES COMPANY AND SUBSIDIARIES**

Barkley Place Building	6-story office building, 10561 Barkley Overland Park, Kansas
7911 Forsyth Office Building	6-story office building and parking garage Clayton, Missouri
Woodlands Plaza I Office Building	3-story office building, 11720 Borman Drive St. Louis, Missouri
6601 College Boulevard Office Building	6-story office building Overland Park, Kansas
9200 Cody Warehouse/Office Facility	120,900 square foot warehouse/office facility Overland Park, Kansas
One and Two Liberty Plaza Office Buildings	Two 2-story office buildings Liberty, Missouri
10955 Lowell (Building 20) Office Building	10-story office building Overland Park, Kansas
7400 Place Office Building	2-story office building, 7400 State Line Prairie Village, Kansas
Corinth Office Building	2-story office building, 8340 Mission Road Prairie Village, Kansas
Corinth Executive Office Building	2-story office building, 4121 W. 83 rd Street Prairie Village, Kansas
4200 Somerset Office Building	2-story office building Prairie Village, Kansas
New Mark Apartment Complex	622 apartments located at 103 rd and North Oak Streets Kansas City, Missouri
New Mark Subdivision	30 acres of residential and commercial land in the area of 100 th and North Oak Streets Kansas City, Missouri
Hillsborough Apartment Complex	329 apartments located at 5401 Fox Ridge Drive Mission, Kansas
Peppertree Apartment Complex	262 apartments located at 6800 Antioch Merriam, Kansas
Harper Square Apartment Complex	51 apartments located at 2201 Harper St. Lawrence, Kansas
Hutton Farms Apartment Complex	212 apartments located at 3401 Hutton Drive Lawrence, Kansas

Tuckaway Apartment Complex	148 apartments located at 2600 W. 6 th St Lawrence, Kansas
Briarwood Apartment Complex	49 apartments located at 4241 Briarwood Drive Lawrence, Kansas
Tuckaway at Shawnee Complex	263 apartments located at 7110 & 7150 Lackman Road Shawnee, Kansas
Dunes at Falcon Valley Complex	208 apartments located at 19501 W. 102 nd Street Lenexa, Kansas

All of the real estate is located in Douglas and Johnson Counties in Kansas, and Clay and St. Louis Counties in Missouri.

TOWER PROPERTIES COMPANY & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and December 31, 2013

ASSETS	2014	2013
Investment in Commercial Properties:		
Rental Property, Net	\$ 151,313,133	\$ 136,439,909
Tenant Leasehold Improvements, Net	6,146,336	6,802,616
Equipment and Furniture, Net	10,799,832	9,089,592
Construction in Progress	37,046	64,837
Commercial Properties, Net	168,296,347	152,396,954
 Real Estate Held for Sale	 135,157	 135,157
 Cash and Cash Equivalents (Related Party)	 2,042,990	 5,283,000
Investment Securities At Fair Value (Related Party)	10,167,788	9,999,795
Receivables (Including Related Party)	3,596,758	3,077,783
Income Taxes Recoverable	774,468	998,347
Prepaid Expenses and Other Assets	1,900,208	1,570,521
Total Assets	\$ 186,913,716	\$ 173,461,557
 LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Liabilities:		
Mortgage Notes	\$ 135,668,891	\$ 122,161,603
Line of Credit (Related Party)	1,250,000	--
Accounts Payable and Other Liabilities	4,958,039	4,863,821
Deferred Income Taxes	13,013,501	13,524,553
Total Liabilities	154,890,431	140,549,977
 Commitments and Contingencies		
 Stockholders' Investment:		
Preferred Stock, No Par Value		
Authorized 2,000 Shares, None Issued	--	--
Common Stock, Par Value \$1.00		
Authorized 33,334 Shares, Issued		
6,181 Shares	6,181	6,181
Paid-In Capital	19,108,978	19,108,978
Retained Earnings	18,969,350	19,346,321
Accumulated Other Comprehensive Income	5,675,593	5,573,117
	43,760,102	44,034,597
 Less Treasury Stock, At Cost (1,395 and 1,339 shares in 2014 and 2013, respectively)	 (11,736,817)	 (11,123,017)
Total Stockholders' Investment	32,023,285	32,911,580
Total Liabilities and Stockholder's Investment	\$ 186,913,716	\$ 173,461,557

See accompanying notes to the consolidated financial statements.

TOWER PROPERTIES COMPANY & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
REVENUES			
Non-Related Party Revenues:			
Rent	\$ 31,438,029	\$ 29,568,550	\$ 26,305,899
Management and Service Fee	44,763	47,230	50,118
Gain (Loss) on Sale of Assets	(16,703)	2,009,640	(160)
Interest and Other Income	489,358	589,498	422,797
Total Non-Related Party Revenues	<u>31,955,447</u>	<u>32,214,918</u>	<u>26,778,654</u>
Related Party Revenues:			
Rent	--	--	293,800
Management and Service Fee	1,429,644	787,848	880,614
Gain on Sale of Assets	--	--	4,624,243
Interest and Other Income	200,403	190,855	488,761
Total Related Party Revenues	<u>1,630,047</u>	<u>978,703</u>	<u>6,287,418</u>
Total Revenues	<u>33,585,494</u>	<u>33,193,621</u>	<u>33,066,072</u>
OPERATING EXPENSES			
Operating Expenses	6,005,549	5,534,067	4,991,133
Maintenance and Repairs	4,641,215	3,435,334	3,268,706
Depreciation and Amortization	11,035,215	10,100,606	8,769,675
Taxes Other than Income	3,362,302	3,067,368	2,931,873
General, Administrative and Other (Including Related Party)	2,662,178	2,374,740	2,296,868
Total Operating Expenses	<u>27,706,459</u>	<u>24,512,115</u>	<u>22,258,255</u>
INTEREST EXPENSE (Including Related Party)	<u>6,564,435</u>	<u>6,425,173</u>	<u>6,213,730</u>
Income (Loss) Before Provision (Benefit) for Income Taxes	(685,400)	2,256,333	4,594,087
PROVISION (BENEFIT) FOR INCOME TAXES			
Current	268,140	107,345	176,018
Deferred	(576,569)	772,625	1,477,853
Total Provision (Benefit) for Income Taxes	<u>(308,429)</u>	<u>879,970</u>	<u>1,653,871</u>
NET INCOME (LOSS)	<u>\$ (376,971)</u>	<u>\$ 1,376,363</u>	<u>\$ 2,940,216</u>
Earnings (Losses) Per Share:			
Basic	<u>\$(77.93)</u>	<u>\$284.26</u>	<u>\$607.23</u>
Diluted	<u>\$(77.93)</u>	<u>\$284.26</u>	<u>\$607.23</u>
Weighted Average Common Shares Outstanding:			
Basic	<u>4,837</u>	<u>4,842</u>	<u>4,842</u>
Diluted	<u>4,837</u>	<u>4,842</u>	<u>4,842</u>

See accompanying notes to the consolidated financial statements.

TOWER PROPERTIES COMPANY & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
NET INCOME (LOSS)	\$ (376,971)	\$ 1,376,363	\$ 2,940,216
Unrealized holding gains (losses) on marketable equity securities, net of deferred tax expense (benefit) of \$65,517, \$1,000,339, and \$(102,947), respectively	<u>102,476</u>	<u>1,564,632</u>	<u>(161,020)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ (274,495)</u>	<u>\$ 2,940,995</u>	<u>\$ 2,779,196</u>

See accompanying notes to the consolidated financial statements.

TOWER PROPERTIES COMPANY & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance, December 31, 2011	6,181	6,181	19,108,978	25,028,472	4,169,505	1,339	(11,123,017)	\$ 37,190,119
Net Income	--	--	--	2,940,216	--	--	--	2,940,216
Dividends Paid	--	--	--	(9,998,730)	--	--	--	(9,998,730)
Unrealized Holding Loss for Securities net of deferred tax benefit of \$102,947	--	--	--	--	(161,020)	--	--	(161,020)
Balance, December 31, 2012	6,181	\$ 6,181	\$ 19,108,978	\$ 17,969,958	\$ 4,008,485	1,339	\$ (11,123,017)	\$ 29,970,585
Net Income	--	--	--	1,376,363	--	--	--	1,376,363
Unrealized Holding Gain for Securities net of deferred tax expense of \$1,000,339	--	--	--	--	1,564,632	--	--	1,564,632
Balance, December 31, 2013	6,181	\$ 6,181	\$ 19,108,978	\$ 19,346,321	\$ 5,573,117	1,339	\$ (11,123,017)	\$ 32,911,580
Net Loss	--	--	--	(376,971)	--	--	--	(376,971)
Treasury Stock Purchases	--	--	--	--	--	56	(613,800)	(613,800)
Unrealized Holding Gain for Securities net of deferred tax expense of \$65,517	--	--	--	--	102,476	--	--	102,476
Balance, December 31, 2014	6,181	\$ 6,181	\$ 19,108,978	\$ 18,969,350	\$ 5,675,593	1,395	\$ (11,736,817)	\$ 32,023,285

TOWER PROPERTIES COMPANY & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	\$ (376,971)	\$ 1,376,363	\$ 2,940,216
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	9,118,766	8,319,664	7,143,584
Amortization	1,916,449	1,780,942	1,626,091
(Gain) Loss On Sale of Assets	16,703	(2,009,640)	(4,624,083)
Change in Balance Sheet Accounts, Net:			
Receivables	(518,975)	(571,468)	(371,933)
Prepaid Expenses and Other Assets	(437,520)	(90,813)	(133,269)
Accounts Payable and Other Liabilities	94,218	563,947	(147,619)
Deferred Income Taxes	(576,569)	772,625	1,477,853
Current Income Taxes	223,879	(278,659)	191,604
Net Cash Provided by Operating Activities	<u>9,459,980</u>	<u>9,862,961</u>	<u>8,102,444</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from Disposition of Assets	--	4,458,072	7,213,088
Acquisitions, net of cash acquired	(23,400,000)	--	(25,475,000)
Purchases of Equipment and Furniture	(903,825)	(662,281)	(603,616)
Purchases of Rental Property	(1,527,283)	(1,425,518)	(775,491)
Purchases of Tenant Leasehold Improvements	(937,899)	(1,699,608)	(1,870,939)
Net Cash Provided by (Used In) Investing Activities	<u>(26,769,007)</u>	<u>670,665</u>	<u>(21,511,958)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends Paid	--	--	(9,998,730)
Principal Payments on Mortgage Notes	(4,795,097)	(5,307,547)	(14,845,406)
Proceeds from Long Term Borrowings	18,302,385	--	34,800,000
Net Change in Line of Credit	1,250,000	(2,000,000)	2,000,000
Purchase of Treasury Stock	(613,800)	--	--
Deferred Loan Costs	(74,471)	--	(298,883)
Net Cash Provided by (Used in) Financing Activities	<u>14,069,017</u>	<u>(7,307,547)</u>	<u>11,656,981</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,240,010)	3,226,079	(1,752,533)
CASH and CASH EQUIVALENTS, Beginning of Year	5,283,000	2,056,921	3,809,454
CASH and CASH EQUIVALENTS, End of Year	<u>\$ 2,042,990</u>	<u>\$ 5,283,000</u>	<u>\$ 2,056,921</u>

See accompanying notes to the consolidated financial statements.

TOWER PROPERTIES COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business

Tower Properties Company and Subsidiaries (the Company) is primarily engaged in the business of owning, developing, leasing and managing real property located in Douglas and Johnson Counties in Kansas, and Clay and St. Louis Counties in Missouri. Substantially all of the improved real estate owned by the Company consists of office buildings, apartment complexes, a warehouse/office facility and land held for future sale or development.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Tower Properties Company and its majority owned subsidiaries. All significant intercompany balance and transactions have been eliminated in consolidation. The Company has no involvement with variable interest entities.

Commercial Properties, Depreciation and Amortization

Commercial Properties are stated at cost less accumulated depreciation. Depreciation is charged to operations using straight-line and accelerated methods over the estimated asset lives, or in the case of tenant leasehold improvements, the term of the lease. The estimated useful lives of Commercial Properties range from 1 to 40 years with the majority of the assets having lives of 27.5 years or 39 years.

Maintenance and repairs are charged to expense as incurred. The cost of additions and betterments that improve or extend the useful life of the property are capitalized. Applicable interest charges incurred during the construction of new facilities are capitalized as one of the elements of cost and are amortized over the assets' estimated useful lives. The cost of assets retired or sold and the related accumulated depreciation are removed from the applicable accounts and any gain or loss is recognized as income or expense. Fully depreciated assets are retained in the accounts until retired or sold.

The amount of accumulated amortization on tenant leasehold improvements was \$10,259,368 and \$8,879,156 at December 31, 2014 and 2013, respectively.

The amount of accumulated depreciation on equipment and furniture was \$19,465,572 and \$16,811,844 at December 31, 2014 and 2013, respectively.

Significant Risks and Uncertainties

Continued economic uncertainty and disruptions in the financial markets may impair our ability to refinance existing obligations or obtain new financing for acquisition or development of properties. There continues to be economic uncertainty, and it is uncertain as to when and to what extent economic conditions will improve. Although the U.S. economy has improved and appears to have emerged from the worst aspects of the recent recession, there can be no assurances that the U.S. economy will continue to improve or that a future recession will not occur. Negative economic conditions in our markets and the markets of our tenants, and other events or factors that adversely affect demand for our properties, could adversely affect our business. We have also relied in part on debt financing to finance our investments and development. To the extent that turmoil in the financial markets returns or intensifies, it has the potential to adversely affect our ability to refinance our existing obligations as they mature or obtain new financing for acquisition or development of properties and adversely affect the value of our investments. If we are not able to refinance existing indebtedness on attractive terms at its maturity, we may be forced to dispose of some of our assets. Continued uncertain economic conditions and further disruptions in the financial markets could also result in a substantial decrease in the value of our investments, which could also make it more difficult to refinance existing obligations or obtain new financing.

We depend on leasing space to tenants on economically favorable terms and collecting rent from our tenants. A general decline in the economy may result in a decline in demand for space at our commercial properties. Our financial results depend significantly on leasing space at our properties to tenants on economically favorable terms. In addition, because a majority of our income comes from leasing real property, our income, and funds available to pay indebtedness will decrease if a significant number of our tenants cannot pay their rent or if we are not able to maintain our levels of occupancy on favorable terms. If our tenants cannot pay their rent or we are not able to maintain our levels of occupancy on favorable terms, there is also a risk that the fair value of the underlying property will be considered less than its carrying value and we may have to take a charge against earnings.

Impairment of Long-Lived Assets

The Company assesses the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the underlying asset may not be recoverable. Certain factors that may occur and indicate that an impairment exists include, but are not limited to: significant underperformance relative to expected projected future operating results; significant changes in the manner of the use of the assets; and significant adverse industry or market economic trends. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeded its estimated future undiscounted cash flows, an impairment charge would be recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet as held for sale and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short term investments with an original maturity of three months or less.

Investment Securities

The Company classifies its investment securities as available-for-sale. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of related tax effect, on available-for-sale securities are excluded from operations and are reported as a separate component of other comprehensive income until realized. A decline in the fair value of any security below cost that is deemed other than temporary would be charged to operations and result in the establishment of a new cost basis for the security.

Revenue Recognition

The Company derives its revenue primarily from two sources: 1) rent from leases of real property, and 2) management and services fees from real property leased and managed. Rental revenue is recognized on a straight-line basis over the term of individual non-cancellable operating leases. The recognition of scheduled rent increases on a straight-line basis results in the recognition of a receivable from tenants. Such receivables were \$1,243,469 and \$1,328,277 at December 31, 2014 and 2013, respectively. Lease agreements generally do not provide for contingent rents. Amounts received from tenants upon early termination of leases are recorded when received as a reduction of lease receivables to the extent there is an associated straight line rent receivable, with the remainder recorded in other income. Management and service fees are recognized as a percentage of revenues on managed properties as earned over the terms of the related management agreements.

Real Estate Held for Sale

The Company's real estate held for sale is recorded at the lower of depreciated cost or estimated realizable value. Revenue is recorded on the sale of real estate when title passes to the buyer and the earnings process is complete.

Consolidated Statements of Cash Flows

Interest payments were \$6,607,581, \$6,423,077 and \$6,222,517 during the years ended December 31, 2014, 2013 and 2012, respectively. Income taxes paid, net of income tax refunds, amounted to \$49,908 during the year ended December 31, 2014. Income taxes paid, net of income tax refunds, amounted to \$395,371 during the year ended December 31, 2013. There were income tax refunds received in the amount of \$1,015 during 2012.

Earnings (Losses) Per Share

Basic earnings (losses) per share are based upon the weighted average common shares outstanding during each year. Diluted earnings (losses) per share are based upon the weighted average common and dilutive common equivalent shares outstanding during each year.

For the years ended December 31, 2014, 2013 and 2012, basic and diluted weighted average common shares are the same because the Company did not have any dilutive securities outstanding during the year.

Comprehensive Income (Loss)

Comprehensive income (loss) includes charges and credits to equity that are not the result of transactions with shareholders. Comprehensive income (loss) is composed of two items-net income (loss) and other comprehensive income (loss). Included in other comprehensive income (loss) are unrealized holding gains (losses) for investment securities.

Recently Issued Accounting Standards

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, in May 2014. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Company will implement the provisions of ASU 2014-09 as of January 1, 2018. The Company has not yet determined the impact of the new standard on its current policies for revenue recognition.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts; valuation of deferred tax assets, acquired tangible and intangible assets and assumed liabilities in business combinations and investments; and reserve for income tax uncertainties and other contingencies.

The Company's accounting policies conform to accounting principles generally accepted in the United States of America.

2. RENTAL PROPERTY:

Major classes of rental property owned by the Company at December 31, 2014 and 2013, are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
December 31, 2014—			
Commercial office	\$ 66,121,726	\$ 19,167,025	\$ 46,954,701
Apartments	137,223,437	34,901,606	102,321,831
Industrial	<u>3,909,472</u>	<u>1,872,871</u>	<u>2,036,601</u>
	<u>\$207,254,635</u>	<u>\$55,941,502</u>	<u>\$151,313,133</u>

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
December 31, 2013—			
Commercial office	\$ 65,824,979	\$ 17,626,275	\$ 48,198,704
Apartments	116,591,148	30,466,686	86,124,462
Industrial	<u>3,909,472</u>	<u>1,792,729</u>	<u>2,116,743</u>
	<u>\$186,325,599</u>	<u>\$ 49,885,690</u>	<u>\$136,439,909</u>

Future minimum rentals to be received by the Company, pursuant to noncancellable operating leases in effect as of December 31, 2014 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 21,984,193
2016	7,676,111
2017	5,481,926
2018	4,600,652
2019	4,054,086
Thereafter	<u>9,407,305</u>
	<u>\$ 53,204,273</u>

3. LONG-TERM DEBT:

Mortgage notes payable secured by commercial property with depreciated cost of approximately \$159,781,000 and \$143,451,000 at December 31, 2014 and 2013, respectively and an assignment of certain leases and related revenue, consist of the following:

	<u>2014</u>	<u>2013</u>
5.89%, principal and interest payable \$35,505 monthly, until March, 2024	\$ 3,032,929	\$ 3,272,633
8.00%, principal and interest payable \$16,311 monthly, until December, 2015	187,280	360,435
7.40%, principal and interest payable \$43,172 monthly, until April, 2016	655,853	1,107,098
7.45%, principal and interest payable \$6,569 monthly, until December, 2015	81,803	151,689
7.78%, principal and interest payable \$9,044 monthly, until November, 2017	282,207	365,239
7.56%, principal and interest payable \$56,779 monthly, until April, 2021	3,420,330	3,826,285
5.56%, principal and interest payable \$74,121 monthly, until May, 2019 final balloon payment due June, 2019	8,840,396	9,226,594
5.18%, principal and interest payable \$53,561 monthly, until June, 2020 final balloon payment due July, 2020	7,407,772	7,659,662
6.01%, principal and interest payable \$96,031 monthly, until August, 2016 final balloon payment due September, 2016	14,271,934	14,557,192
6.15%, principal and interest payable \$33,227 monthly, until September, 2017 final balloon payment due October, 2017	2,473,655	2,712,231
6.39%, principal and interest payable \$25,397 monthly, until September, 2022 final balloon payment due October, 2022	3,238,779	3,333,285
4.95%, principal and interest payable \$42,167 monthly, until August, 2018 final balloon payment due September, 2018	6,121,989	6,315,461
5.04%, principal and interest payable \$106,775 monthly, until July, 2017 final balloon payment due August, 2017	18,499,862	18,826,742

5.00%, principal and interest payable		
\$16,369 monthly, until June, 2021		
final balloon payment due July, 2021	2,590,254	2,655,386
5.00%, principal and interest payable		
\$9,353 monthly, until June, 2021		
final balloon payment due July, 2021	1,480,145	1,517,363
5.00%, principal and interest payable		
\$47,790 monthly, until June, 2021		
final balloon payment due July, 2021	7,562,615	7,752,778
4.10%, principal and interest payable		
\$30,748 monthly, until September, 2021		
final balloon payment due October, 2021	5,300,000	4,779,092
4.75%, principal and interest payable		
\$45,507 monthly, until March, 2022		
final balloon payment due April, 2022	6,466,544	6,695,181
3.50%, principal and interest payable		
\$89,111 monthly, until November, 2022		
final balloon payment due December, 2022	16,876,744	17,346,438
4.04%, principal and interest payable		
\$60,809 monthly, until December, 2022		
final balloon payment due December, 2022	9,362,138	9,700,819
3.31%, principal and interest payable		
\$72,060 monthly, until July, 2048.	17,515,662	-
Total Mortgage Notes Payable	<u>\$ 135,668,891</u>	<u>\$ 122,161,603</u>

Minimum long-term debt principal payments for mortgage notes required over the next five years and thereafter are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 5,242,152
2016	18,538,620
2017	23,708,648
2018	9,310,869
2019	10,581,893
Thereafter	<u>68,286,709</u>
	<u>\$ 135,668,891</u>

The carrying amounts and estimated fair values of long-term debt are based on current market interest rates for similar issues as follows:

	<u>2014</u>		<u>2013</u>	
<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	
\$135,668,891	\$132,396,000	\$122,161,603	\$117,820,000	

The fair values are based on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments or on estimated prices based on current yields for debt issues of similar quality and terms. The Company negotiates its long-term debt rates on a property by property basis. The carrying amount of the debt represents the actual face value of the contractual debt contracts. The fair value is an estimate of what the mortgage holder could resell the debt for at year end.

On January 13, 2012, the Company paid off the loan associated with the 7911 Forsyth Building. The outstanding balance at the time of pay off was \$3,678,308. The Company paid off the loan on January 13, 2012 and paid a prepayment penalty of \$36,783 which is included in General, Administrative and Other Expense for the year ended December 31, 2012.

On April 3, 2012, the Company refinanced the loan associated with the Barkley Building. The original loan had an outstanding balance of \$324,716 at April 3, 2012. The Company paid off the existing loan on April 3, 2012, paid a prepayment penalty of \$12,024 which is included in General, Administrative and Other Expense for the year ended December 31, 2012, and replaced the original loan with a new \$7,000,000, 10-year non-recourse loan (20 year amortization) at 4.75%, with interest only due the first three months, that matures with a balloon payment on April 1, 2022.

On November 1, 2012, the Company financed a loan of \$17,800,000 associated with the purchase of the Tuckaway at Shawnee apartments. The new loan is a 10-year non-recourse loan (25 year amortization) at 3.50% that matures with a balloon payment on December 1, 2022.

On December 11, 2012, the Company refinanced the loans associated with the New Mark Phases, I, II, and III apartments. These assets were financed by two separate loans. The original loan for Phases I and II had an outstanding balance of \$4,745,101 at December 11, 2012. The Company paid off the existing loan for Phases I and II on December 11, 2012. The original loan for Phase III had an outstanding balance of \$2,047,467 at December 11, 2012. The Company paid off the existing loan for Phase III on December 11, 2012 and paid a prepayment penalty of \$405,341 which is included in General, Administrative and Other Expense for the year ended December 31, 2012. The Company replaced the two original loans on December 11, 2012 with a new \$10,000,000, 10-year non-recourse loan (20-year amortization) for Phases I, II, and III at 4.04%, with a balloon payment that matures on December 11, 2022.

On November 15, 2013, the Company paid off the loan associated with the 9909 Lakeview Warehouse when the warehouse was sold. The outstanding balance at the time of pay off was \$782,621. The

Company paid off the loan on November 15, 2013 and paid a prepayment penalty of \$100,930 which is included in General, Administrative and Other Expense for the year ended December 31, 2013.

On May 13, 2014, the Company assumed a loan of \$17,680,067 associated with the purchase of the Dunes at Falcon Valley apartments. The assumed loan is a fully amortizing 35-year non-recourse loan at 3.31% that matures on July 1, 2048. In addition to the loan interest of 3.31%, the loan requires a mortgage insurance premium payment of .6% throughout the life of the loan, so the overall effective interest rate on the loan is 3.91%.

On November 18, 2014, the Company modified the loan associated with the Peppertree Phase II apartments, reducing the interest rate from 5.2% to 4.1% and increasing the loan balance from \$4,677,682 to \$5,300,000 while maintaining the maturity date of October 1, 2021.

4. INCOME TAXES:

The Company's effective income tax rate differed from the statutory federal income tax rate primarily due to the following:

	<u>2014</u>		<u>2013</u>		<u>2012</u>
Statutory federal income tax rate	(34.0)	%	34.0	%	34.0
Tax effect of:					
Dividend exclusion	(7.1)		(2.1)		(2.6)
State income taxes, net of federal effect	(3.8)		3.4		3.4
Nondeductible travel & entertainment expense	0.4		0.2		0.1
Nondeductible professional fees	1.5		0.0		0.0
Other	(2.0)		3.5		1.1
Effective income tax rate	<u>(45.0)</u>	%	<u>39.0</u>	%	<u>36.0</u>

Deferred income taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using the enacted tax rate. The tax effect of temporary differences giving rise to the Company's net deferred income tax liability at December 31, 2014 and 2013 is as follows:

	<u>2014</u>		<u>2013</u>
Deferred tax assets:			
Amortization of leasehold improvements	\$ 1,481,934	\$	1,123,356
Rent received in advance	256,500		199,479
Accrued vacation	24,849		27,080
Bad Debt	33,124		22,511
Gross deferred tax assets	<u>1,796,407</u>		<u>1,372,426</u>

Deferred tax liabilities:		
Depreciation on rental income property, equipment and furniture	(10,499,429)	(10,662,886)
Unrealized holding gain for securities	(3,628,658)	(3,563,141)
Accrued rent receivable	(484,953)	(518,028)
Prepaid expenses	(196,868)	(152,924)
	<u>(14,809,908)</u>	<u>(14,896,979)</u>
Net deferred income tax liability	\$ <u><u>(13,013,501)</u></u>	\$ <u><u>(13,524,553)</u></u>

Due to the history of earnings and projected future results, the Company believes it is more likely than not those future operations will generate sufficient taxable income to realize the deferred tax assets.

At December 31, 2014, the Company has approximately \$517,000 of alternative minimum tax credit carryforwards which are available to reduce future Federal regular income taxes over an indefinite period.

5. SALES AND DONATION OF PROPERTIES AND ACQUISITIONS:

On May 13, 2014, the Company purchased 100% of the membership interests of the limited liability company Dunes Falcon Valley Associates, LLC for \$23,400,000. The exclusive business of Dunes Falcon Valley Associates, LLC is the ownership of a 208-unit apartment complex in Lenexa, Kansas known as Dunes at Falcon Valley. Upon acquisition of real estate properties, the Company determines if the acquisition meets the criteria to be accounted for as a business combination in accordance with ASC 805. Acquisitions of properties with multiple tenants that require business related activities to manage and maintain the properties are treated as business combinations. Accordingly, the Company records the fair value of acquired tangible assets (consisting of land, building, tenant improvements, and furniture, fixtures and equipment) and identified intangible assets (consisting of acquired in-place leases) and liabilities. The fair value of acquired in-place leases includes management's estimate of the value associated with avoiding the costs typically incurred during a lease-up period (i.e. the market cost to execute the leases, including leasing commissions, legal and other related operating costs). These values are amortized over the remaining initial lease term of the respective leases. Acquisition-related costs in connection with business combinations are expensed as incurred.

As part of this transaction, the Company assumed a loan for \$17,680,067, in which the carrying value approximated market value on the date of acquisition and paying the remaining of the purchase price with cash. On the acquisition date, the Company recorded the following in the consolidated financial statements: \$23,275,000 in tangible assets, comprising \$6,666,291 of land, \$3,700,433 of furniture and fixtures, and \$12,908,276 of building and land improvements. The Company recorded an Intangible Asset-Acquired in Place Leases Value of \$125,000, which was amortized on a straight line basis over the approximate weighted average remaining lease term of 6 months.

On November 15, 2013, the Company sold the 9909 Lakeview Warehouse located in Lenexa, Kansas. The sales price was \$4,700,000 which resulted in a net gain of \$2,032,000.

On August 15, 2013, the Company donated to the City of Kansas City, Missouri (City) 4.75 acres of undeveloped land at Shoal Creek Parkway and Woodland Avenue in Kansas City, Missouri to allow the City to complete their Shoal Creek Parkway project. The Company reduced the balance sheet account Real Estate Held for Sale and recorded a Loss on Sale of Assets of \$21,560.

On November 1, 2012, the Company purchased a 263 unit apartment complex in Shawnee, Kansas, known as Tuckaway at Shawnee, for \$25,475,000. On the acquisition date, the Company recorded the following in the consolidated financial statements: \$25,340,000 in tangible assets, comprising \$2,454,750 of land, \$3,920,950 of furniture and fixtures, and \$18,964,300 of building and land improvements. The Company recorded an Intangible Asset-Acquired in Place Leases Value of \$135,000, which was amortized on a straight line basis over the approximate weighted average remaining lease term of 6 months.

On October 30, 2012, the Company sold five surface parking lots (600 Baltimore, 700 Baltimore, 600 Main, 601 Main and 102 E. 8th Street) located in downtown Kansas City, Missouri to Commerce Bank (a related party). The sales price was \$7,200,000 which resulted in a net gain of \$4,609,104.

6. RELATED PARTY TRANSACTIONS:

There are common officers and directors of the Company and Commerce Bank and Commerce Bancshares, Inc. (“Commerce”). The Company received rent and management and service fees income from Commerce of \$1,429,644, \$787,848 and \$1,174,414 in 2014, 2013, and 2012, respectively.

The Company owns 233,796 shares of Commerce Bancshares, Inc. common stock, which is shown as a related party investment in the accompanying balance sheets. The common stock has a cost basis of \$863,538. Total unrealized gains at December 31, 2014 and 2013 were \$9,304,250 and \$9,136,257 respectively. Dividend income received as owner of Commerce Bancshares, Inc. common stock was \$200,403, \$190,854, and \$488,752 in 2014, 2013, and 2012, respectively.

The Company’s cash and cash equivalents are held at Commerce. There was no interest income earned from these cash and cash equivalents for the year 2014. Interest income earned was \$1 and \$9 for 2013 and 2012, respectively.

On October 30, 2012, the Company sold five surface parking lots (600 Baltimore, 700 Baltimore, 600 Main, 601 Main and 102 E. 8th Street) located in downtown Kansas City, Missouri to Commerce. The sales price was \$7,200,000 which resulted in a net gain of \$4,609,104.

On December 21, 2012, the Company sold a vehicle to Commerce. The sales price was \$20,000 which resulted in a net gain of \$15,139.

The Company has a \$13,500,000 line of credit (“Line of Credit”) with Commerce Bank that carries a variable interest rate equal to one and three quarter percent (1 3/4 %) in excess of the one month maturity London Interbank Offered Rate (“LIBOR”). At December 31, 2014, the Company had \$1,250,000 of outstanding borrowings on the Line of Credit and the interest rate was 1.91%. After the sale of the surface lots on October 30, 2012, the remaining collateral for the Line of Credit is the

233,796 shares of Commerce Bancshares, Inc. common stock. Therefore, the revised maximum amount that may be borrowed on the Line of Credit is approximately \$8,000,000 at December 31, 2014. The Company had approximately \$6,750,000 available under the Line of Credit at December 31, 2014. This line requires monthly interest payments and matures June 1, 2015. The Company intends to renew the Line of Credit with Commerce upon maturity. The Company pledged its shares of Commerce common stock as collateral for the Line of Credit. Interest expense for the Line of Credit was \$14,726, \$7,194 and \$56,331 for 2014, 2013 and 2012, respectively. The weighted average short term borrowing rate for interest paid on the Line of Credit was 1.91% for the year ended December 31, 2014.

In 2012 the Company signed a new five-year lease renewal, which also includes a five-year renewal option, at their offices at 1000 Walnut, Suite 900, Kansas City, MO, a building owned by Commerce. Rent included in General, Administrative and Other expense was \$68,825, \$66,859 and \$65,794 for 2014, 2013 and 2012, respectively.

Included in receivables at December 31, 2014 and 2013 are amounts due from Commerce of \$939,230 and \$1,076,632, respectively.

7. BENEFIT PLANS:

Some of the Company's union employees are covered by union-sponsored, collectively-bargained, multi-employer pension plans. Tower contributed \$78,872, \$82,896 and \$75,933, in 2014, 2013 and 2012, respectively, to such plans. The contributions were determined in accordance with the provisions of negotiated labor contracts and are based on the number of hours worked.

The Company has a 401(k) plan whereby the Company matches 25% of employee contributions up to a maximum Company match equal to 1.5% of employee compensation. The Company matched \$35,210, \$30,458 and \$27,741 for the years ended December 31, 2014, 2013 and 2012, respectively. The Company also made discretionary contributions in the amounts of \$82,600, \$60,200 and \$60,200 for the years ended December 31, 2014, 2013 and 2012, respectively.

8. STOCK BASED COMPENSATION:

In 2014, 2013 and 2012, the Company did not grant any stock options. There were no stock options outstanding at December 31, 2014, 2013 or 2012.

9. FAIR VALUE MEASUREMENTS:

US GAAP discusses valuation techniques, such as the market approach (prices and other relevant information generated by market conditions involving identical or comparable assets or liabilities), the income approach (techniques to convert future amounts to single present amounts based on market expectations including present value techniques and option-pricing), and the cost approach (amount that would be required to replace the service capacity of an asset which is often referred to as replacement cost). A fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company uses fair value measurements to record fair value adjustments to certain financial and nonfinancial assets and liabilities and to determine fair value disclosures. Financial instruments such as investment securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets and liabilities on a nonrecurring basis, such as long-lived assets and intangible assets. These nonrecurring fair value adjustments typically involve lower of cost or market accounting, or write-downs of individual assets.

Valuation methods for instruments measured at fair value on a recurring basis

Investment securities are priced using the market prices for each security from the major stock exchanges or other electronic quotation systems.

The following tables show assets measured at fair value on a recurring basis and also the level within the fair value hierarchy used to measure the assets as of December 31, 2014 and 2013.

	Balance December 31, 2014	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investment Securities	\$ 10,167,788	\$ 10,167,788	\$ -	\$ -

	Balance December 31, 2013	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investment Securities	\$ 9,999,795	\$ 9,999,795	\$ -	\$ -

Valuation methods for instruments measured at fair value on a nonrecurring basis

While the long-lived assets are not carried at fair value, certain factors may occur that indicate an impairment exists. If an impairment charge would be recognized, it would be the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

The Company initially measures its intangible assets at fair value, and amortizes them over the lease periods.

Fair value measurements may be based upon: a) appraisals or third-party price opinions and, accordingly, those measurements would be classified as Level 2, or b) internally developed pricing methods, and accordingly, those measurements would be classified as Level 3.

10. COMMITMENTS AND CONTINGENCIES:

At December 31, 2014, the Company has commitments to provide tenant improvement allowances in 2015 to four tenants that total \$469,000.

From time to time, the Company is subject to various items related to the normal course of business, including loss of tenants, legal proceedings, and environmental related actions. In the opinion of management, none of these items are expected to result in a material adverse effect on the financial statements of the Company.

11. PURCHASE OF TREASURY STOCK

In 2014, the Company purchased a total of 56 shares of the Company's common stock owned by non-related parties at a total cost of \$613,800. The cash paid came out of the Cash and Cash Equivalents on hand.

On June 11, 2014, the Company purchased one share of the Company's common stock owned by a non-related party shareholder for \$9,600.

On September 22, 2014, the Company purchased two shares of the Company's common stock owned by a non-related party shareholder for \$10,600 per share or a total of \$21,200.

On December 9, 2014, the Company purchased 53 shares of the Company's common stock owned by non-related party shareholders for \$11,000 per share or a total of \$583,000 in a modified "Dutch Auction" tender offer ("Offer"). The Offer began October 8, 2014, and expired on December 8, 2014. Under the terms of the Offer, stockholders had the opportunity to tender some or all of their shares of Common Stock, at a price within the range of \$10,000 to \$11,000 per share. Based on the number of shares tendered and the prices specified by the tendering stockholders, the Company determined the lowest per share price within the range of tenders that enabled the Company to buy up to \$1,000,000 in shares, or such lower amount depending on the number of shares that were properly tendered and not properly withdrawn. All shares accepted for payment were paid the same price, regardless of whether a stockholder tendered such shares at a lower price within the range.

12. DIVIDEND

On May 17, 2012 the Company paid a cash dividend of \$2,065 per share totaling \$9,998,730 to the holders of record at April 30, 2012 of the 4,842 shares of common stock of the Company issued and outstanding.

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the balance sheet date through March 31, 2015, the date at which financial statements were available to be issued, and determined there are no items to disclose.

Independent Auditors' Report

The Board of Directors
Tower Properties Company and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Tower Properties Company and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' investment and cash flows for each of the years in the three-year period ended December 31, 2014 and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly in all material respects, the financial position of Tower Properties Company and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Kansas City, Missouri
March 31, 2015