

**TURTLE BAY TOWERS CORP.**

---

Financial Statements and  
Supplementary Information for the  
Years Ended December 31, 2015 and 2014



Certified Public Accountants

**TURTLE BAY TOWERS CORP.**

**CONTENTS**

---

	Page
<b>Independent Auditor's Report</b>	1
Financial Statements for the years ended December 31, 2015 and 2014:	
Balance Sheets	2
Statements of Operations	4
Statements of Changes in Stockholders' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Supplementary and Prospective Information:	
<b>Independent Auditor's Report on Supplementary and Prospective Information</b>	15
Supporting Schedules - Statements of Operations	16
Comparative Schedules of Revenues and Expenses - Budget, Historical and Budget Forecast	17
Summary of Significant Accounting Policies and Budget Forecast Assumptions	18



Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Turtle Bay Towers Corp.

We have audited the accompanying financial statements of Turtle Bay Towers Corp., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended, 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.

### ***Auditor's 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 from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Turtle Bay Towers Corp. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Omission of Required Supplementary Information about Future Major Repairs and Replacements***

Management has omitted the supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

*Newman, Newman & Kaufman, LLP*

February 23, 2016

Newman, Newman & Kaufman, LLP  
575 Underhill Blvd.  
Suite 100  
Syosset, NY 11791

Rockefeller Center  
One Rockefeller Plaza  
11th Floor  
New York, NY 10020

T 516.364.0700  
F 516.364.9407  
info@nnkllp.com  
www.nnkllp.com

**TURTLE BAY TOWERS CORP.**

**BALANCE SHEETS**

December 31,	2015	2014
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents (Notes 2 and 5)	\$ 927,603	\$ 936,667
Receivables (Note 3)	262,949	285,654
Prepaid expenses (Note 4)	<u>93,767</u>	<u>173,610</u>
Total Current Assets	<u>1,284,319</u>	<u>1,395,931</u>
 Reserve fund (Notes 2 and 5)	 <u>1,060,627</u>	 <u>1,427,287</u>
 Property and Improvements: (Notes 2 and 6)		
Land	13,655,758	13,655,758
Building	58,216,653	58,216,653
Building improvements	10,901,083	9,596,658
Building equipment	<u>2,536,794</u>	<u>2,536,794</u>
Total	85,310,288	84,005,863
Less: accumulated depreciation	<u>45,692,399</u>	<u>43,771,820</u>
Net Property and Improvements	<u>39,617,889</u>	<u>40,234,043</u>
 Other Assets:		
Security deposits	2,010	94,692
Deferred loan costs (Note 2)	<u>187,226</u>	<u>268,453</u>
Total Other Assets	<u>189,236</u>	<u>363,145</u>
Total Assets	<u>\$ 42,152,071</u>	<u>\$ 43,420,406</u>

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

**TURTLE BAY TOWERS CORP.**

**BALANCE SHEETS**

December 31,	2015	2014
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	\$ 145,391	\$ 199,389
Mortgages and note payable - current portion	483,360	452,179
Building improvements payable	286,942	18,010
Real estate tax abatements	207,063	208,218
Senior citizen subsidy (Note 7)	169,747	157,736
Shareholder maintenance fees paid in advance	111,088	77,375
Accrued mortgage and note interest	<u>75,016</u>	<u>76,427</u>
Total Current Liabilities	<u>1,478,607</u>	<u>1,189,334</u>
Long-Term Liabilities:		
Mortgage payable - First Tier - net of current portion (Note 8)	19,886,078	20,230,609
Mortgage payable - Second Tier - net of current portion (Note 8)	2,419,483	2,452,925
Mortgage payable - Supplemental - net of current portion (Note 8)	2,395,809	2,428,465
Note payable (Note 9)	255,786	328,663
Security deposits payable	<u>36,258</u>	<u>148,899</u>
Total Long-Term Liabilities	<u>24,993,414</u>	<u>25,589,561</u>
Total Liabilities	<u>26,472,021</u>	<u>26,778,895</u>
<b>Stockholders' Equity</b>		
Common stock - \$1.00 par value		
100,000 shares authorized		
60,730 shares issued and outstanding	60,730	60,730
Paid-in capital in excess of par value	48,297,624	48,297,624
Paid-in capital treasury stock	393,203	393,203
Additional paid-in capital	10,770,295	9,749,873
Accumulated deficit	<u>( 43,841,802)</u>	<u>( 41,859,919)</u>
Total Stockholders' Equity	<u>15,680,050</u>	<u>16,641,511</u>
Total Liabilities and Stockholders' Equity	<u>\$ 42,152,071</u>	<u>\$ 43,420,406</u>

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

**TURTLE BAY TOWERS CORP.**  
**STATEMENTS OF OPERATIONS**

Year Ended December 31,	2015	2014
<b>Revenues</b>		
Maintenance	\$ 7,222,451	\$ 7,222,451
Less: paid-in capital - mortgage amortization	( 452,325)	( 422,967)
	<u>6,770,126</u>	<u>6,799,484</u>
Operating assessment	406,833	454,907
Commercial income (Note 12)	308,666	300,494
Garage income	231,525	297,157
Other shareholder fees	197,149	247,995
Laundry income	71,175	70,450
Interest income	<u>6,487</u>	<u>5,528</u>
Total Revenues	<u>7,991,961</u>	<u>8,176,015</u>
<b>Cost of Operations</b>		
Administrative expenses	Schedule 1 262,191	265,948
Operating expenses	Schedule 2 2,048,088	2,014,078
Repairs and maintenance	Schedule 3 373,424	333,996
Real estate tax	3,756,709	3,682,306
Mortgage and note interest	1,798,871	1,828,407
Corporation taxes	<u>48,425</u>	<u>44,256</u>
Total Cost of Operations	<u>8,287,708</u>	<u>8,168,991</u>
<b>(Loss) income from operations before transfer fees and depreciation and amortization</b>	( 295,747)	7,024
Transfer fees (Note 2)	<u>315,670</u>	<u>171,550</u>
<b>Income Before Depreciation and Amortization</b>	19,923	178,574
Depreciation and amortization	( 2,001,806)	( 1,995,619)
Net Loss For The Year	<u>(\$ 1,981,883)</u>	<u>(\$ 1,817,045)</u>

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

**TURTLE BAY TOWERS CORP.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

<b>Year Ended December 31,</b>	<b>2015</b>	<b>2014</b>
<b>Common Stock</b>		
Balance - January 1,	\$ 60,730	\$ 60,730
Transactions during year	<u>-</u>	<u>-</u>
Balance - December 31,	<u>\$ 60,730</u>	<u>\$ 60,730</u>
<b>Paid-In Capital in Excess of Par Value</b>		
Balance - January 1,	\$ 48,297,624	\$ 48,297,624
Transactions during year	<u>-</u>	<u>-</u>
Balance - December 31,	<u>\$ 48,297,624</u>	<u>\$ 48,297,624</u>
<b>Paid-In Capital - Treasury Stock</b>		
Balance - January 1,	\$ 393,203	\$ 393,203
Transactions during year	<u>-</u>	<u>-</u>
Balance - December 31,	<u>\$ 393,203</u>	<u>\$ 393,203</u>
<b>Additional Paid-In Capital</b>		
Balance - January 1,	\$ 9,749,873	\$ 8,839,688
Capital assessment (Note 6)	568,097	487,218
Mortgage and note amortization	<u>452,325</u>	<u>422,967</u>
Balance - December 31,	<u>\$ 10,770,295</u>	<u>\$ 9,749,873</u>
<b>Accumulated Deficit</b>		
Balance - January 1,	(\$ 41,859,919)	(\$ 40,042,874)
Net loss for the year	<u>( 1,981,883)</u>	<u>( 1,817,045)</u>
Balance - December 31,	<u>(\$ 43,841,802)</u>	<u>(\$ 41,859,919)</u>

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

**TURTLE BAY TOWERS CORP.**  
**STATEMENTS OF CASH FLOWS**

Year Ended December 31,	2015	2014
<b>Cash Flows From Operating Activities</b>		
Net loss for the year	( <u>\$ 1,981,883</u> )	( <u>\$ 1,817,045</u> )
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation	1,920,579	1,914,392
Amortization	81,227	81,227
Other changes in operating assets and liabilities that provided (used) cash:		
Receivables	22,705	( 50,778)
Prepaid expenses	79,843	( 41,915)
Security deposits	92,682	( 93)
Accounts payable	( 53,998)	( 5,598)
Other current liabilities	43,158	( 112,114)
Security deposits payable	( <u>112,641</u> )	( <u>27,109</u> )
Total Adjustments	<u>2,073,555</u>	<u>1,758,012</u>
Cash Provided By (Used In) Operating Activities	<u>91,672</u>	( <u>59,033</u> )
<b>Cash Flows From Investing Activities</b>		
Decrease (increase) in reserve fund (Note 5)	366,660	( 377,992)
Increase in building improvements and equipment	( 1,304,425)	( 149,958)
Increase (decrease) in building improvements payable	<u>268,932</u>	( <u>79,488</u> )
Cash Used In Investing Activities	( <u>668,833</u> )	( <u>607,438</u> )
<b>Cash Flows From Financing Activities</b>		
Amortization of mortgage and note payable	( 452,325)	( 422,967)
Additional paid-in capital - mortgage and note amortization	452,325	422,967
Capital assessment (Note 6)	<u>568,097</u>	<u>487,218</u>
Cash Provided By Financing Activities	<u>568,097</u>	<u>487,218</u>
Net change in cash and cash equivalents	( 9,064)	( 179,253)
Cash and cash equivalents - at beginning of year	<u>936,667</u>	<u>1,115,920</u>
Cash and cash equivalents - at end of year (Note 5)	<u>\$ 927,603</u>	<u>\$ 936,667</u>
<b>Supplemental Disclosures</b>		
Interest paid	\$ 1,800,282	\$ 1,829,720
Income taxes paid	\$ 47,483	\$ 43,091

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

## TURTLE BAY TOWERS CORP.

### Notes to Financial Statements

---

#### Note 1. ORGANIZATION

On March 31, 1988, Turtle Bay Towers Corp. (the "Corporation") purchased the building and underlying land known as 310 East 46th Street, New York, New York. The Corporation is a qualified Cooperative Housing Corporation under Section 216(b)(1) of the Internal Revenue Code and contains 337 apartment units. The primary purpose of the Corporation is to manage the operations of the property and maintain the common elements.

#### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Presentation and 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.

##### **Investment Carrying Values**

Money funds are carried at cost which approximate fair value.

##### **Property and Improvements**

Property and improvements are stated at cost. The building is depreciated on the straight-line method over an estimated life of forty years. Building improvements and equipment are depreciated on the straight-line method over estimated lives which range from ten to forty years. Maintenance and repairs that do not increase the useful life of an asset are expensed as incurred.

For tax purposes, the acquisition of the property is reported as an exchange pursuant to Section 351 of the Internal Revenue Code. In accordance with the provisions of Section 351, the depreciable tax basis of the property is \$4,432,320 which is the carryover basis of the Sponsor at the date of the transfer. Depreciation for tax purposes is recorded on the straight-line method over an estimated life of forty years.

##### **Deferred Mortgage Finance Costs**

Mortgage finance costs incurred in connection with refinancing transactions have been deferred and are being amortized over the original life of the respective loan on the straight-line basis.

##### **Revenue Recognition**

Shareholder maintenance is based on an annual budget determined by the Board of Directors. Shareholders are billed monthly based on their respective share ownership. This income is recognized when due and payable. The Corporation retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

##### **Transfer Fees**

A transfer fee equal to three (3%) percent of the gross sales price is charged to stockholders upon the transfer (sale) of their respective shares appurtenant to a unit owned and occupied for a period of 0-2 years. For shares appurtenant to a unit owned and occupied for a period of 2-4 years, the fee shall be two (2%) percent of the gross sales price and for shares appurtenant to a unit owned and occupied for a period exceeding 4 years, the fee shall be equal to one (1%) percent of the gross sales price. Such transfer fees are recognized as income to the Corporation at the time of transfer.

# TURTLE BAY TOWERS CORP.

## Notes to Financial Statements

---

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Corporation Taxes

In accordance with FASB ASC 740, Income Taxes, the Corporation is required to disclose and recognize any material tax provisions resulting from uncertain tax positions.

Federal income tax is computed pursuant to Subchapter T of the Internal Revenue Code. Under Subchapter T, a cooperative is required to classify its income and expenses as patronage or non-patronage sourced. Income from non-patronage sources in excess of allocable expenses may be subject to tax.

At December 31, 2015, the Corporation had approximately \$7,851,000 of operating loss carryforwards available for federal income tax purposes which will expire through 2035. Since the Corporation does not anticipate significant taxable income, no related deferred tax asset accounts have been reflected in the accompanying financial statements.

New York State Franchise and New York City Corporation taxes are calculated by utilizing special tax rates available to cooperative housing corporations based on the Corporation's capital base.

The Corporation's tax returns for all years since 2012 remain open to examination by the respective taxing authorities. There are currently no tax examinations in progress.

#### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash, money market accounts, and other highly liquid investments (not allocated to reserve fund investments) that are readily convertible into cash and purchased with original maturities of three months or less.

#### Concentration of Credit Risk

The Corporation maintains cash in various bank deposit accounts. Most accounts are either within federally insured limits or subject to increased limits by the banking institution. The Corporation has not experienced any losses in such accounts.

#### Future Major Repairs and Replacements

The Corporation's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Corporation has not promulgated a study to determine the remaining useful lives of the components of the building but periodically estimates the costs of major repairs and replacements that may be required. Therefore, it is not possible to determine at this time whether amounts maintained as a reserve fund will be adequate to meet future needs. When funds are required for major repairs and replacements, the Corporation has the right to utilize available cash reserves and/or borrow, increase maintenance and/or impose assessments, or delay repairs and replacements until funds are available.

#### Evaluation of Subsequent Transactions and Events

The Corporation has evaluated transactions and events that occurred after December 31, 2015 through February 23, 2016, the date the financial statements were available to be issued, and has determined that there were no subsequent transactions or events which would require recognition or disclosure in the financial statements, except as noted herein.

### Note 3. RECEIVABLES

	<u>2015</u>	<u>2014</u>
Garage and commercial income	\$ 139,944	\$ 197,083
Shareholders' maintenance and charges	101,485	67,960
Real estate tax refund	16,741	16,741
Due from vendors	<u>4,779</u>	<u>3,870</u>
Total	<u>\$ 262,949</u>	<u>\$ 285,654</u>

**TURTLE BAY TOWERS CORP.**

**Notes to Financial Statements**

---

Note 4. <b>PREPAID EXPENSES</b>	<u>2015</u>	<u>2014</u>
Insurance	\$ 88,542	\$ 100,777
Corporation tax and other	5,225	31,278
Real estate tax	<u>-</u>	<u>41,555</u>
Total	<u>\$ 93,767</u>	<u>\$ 173,610</u>

**Note 5. CASH AND CASH EQUIVALENTS AND RESERVE FUND**

Cash and cash equivalents were as follows:

	<u>2015</u>	<u>2014</u>
Capital One Bank:		
Tax escrow account *	\$ 837,229	\$ 793,535
Operating account	<u>90,374</u>	<u>143,132</u>
Balance at December 31,	<u>\$ 927,603</u>	<u>\$ 936,667</u>

\* Balances held in the tax escrow account at December 31 are used to fund the third quarter New York City real estate tax payment due each January. Subsequent to year end, in January 2016, the Corporation disbursed \$848,167 for third quarter 2015/16 real estate taxes.

The reserve fund is invested as follows:

	<u>2015</u>	<u>2014</u>
Capital One Bank business money market	\$ 295,226	\$ 257,585
Customers Bank business money market	246,860	245,752
CIT Bank business money market	246,440	245,581
US Bank money market savings	245,846	292,204
Union Bank business money market	15,269	375,204
Firsttrust Bank business savings	<u>10,986</u>	<u>10,961</u>
Total	<u>\$ 1,060,627</u>	<u>\$ 1,427,287</u>

**Note 6. PROPERTY AND IMPROVEMENTS**

Building improvements were capitalized as follows:

	<u>2015</u>	<u>2014</u>
Exterior restoration - in progress	\$ 1,204,169	\$ 144,958
Lighting upgrade - in progress	55,431	-
Plumbing upgrade	<u>44,825</u>	<u>5,000</u>
Total	<u>\$ 1,304,425</u>	<u>\$ 149,958</u>

**Contract Commitments/Capital Assessment**

In addition to building improvements payable of \$286,942 at December 31, 2015, the Corporation is committed to completing the exterior restoration and the lighting upgrade projects at an additional cost of approximately \$948,000. Such projects are subject to change orders and professional fees as work progresses.

In order to partially fund the exterior restoration project, the Board of Directors approved a capital assessment of \$1,150,000 payable over 24 months commencing March 1, 2014. For financial reporting and income tax purposes, the capital assessment is being treated as additional paid-in capital.

## TURTLE BAY TOWERS CORP.

### Notes to Financial Statements

---

#### Note 7. SENIOR CITIZEN SUBSIDY

Owners of rent regulated apartments are entitled to periodically raise rents to cover costs, as determined by the New York City Rent Guidelines Board or the New York State Division of Housing and Community Renewal. The SCRIE programs protect eligible seniors from having to pay most of these increases. The subsidy due to the owners of the rent regulated apartments is deducted from the Corporation's real estate tax payment and is payable by the Corporation to the unit owner. At December 31, 2015 and 2014, the outstanding senior citizen subsidy payable was \$169,747 and \$157,736, respectively.

#### Note 8. MORTGAGES PAYABLE/SUBSEQUENT EVENTS

The Corporation's mortgage obligations are comprised of two tiers and a supplemental mortgage totaling \$25,111,999 at December 31, 2015.

##### First Tier

The mortgage is held by The Prudential Insurance Company of America in two tiers. The First Tier, in the original principal amount of \$27,000,000, requires monthly installments of \$141,631 applied first to interest at the rate of 6.75% per annum with the balance applied to the reduction of principal based on a thirty year amortization schedule. The mortgage matures on April 15, 2018 at which time the unpaid principal balance of approximately \$19,421,486 plus accrued interest, if any, will have to be retired or refinanced. At December 31, 2015, the outstanding balance was \$20,230,609.

The following are required principal payments on the mortgage for each of the next three years, including maturity:

2016	\$ 344,531
2017	368,520
2018	96,072
At Maturity April 15, 2018	19,421,486

##### Second Tier

The Second Tier indebtedness, which was used to partially fund an exterior restoration project, is held by The Prudential Insurance Company of America. The Second Tier, in the original principal amount of \$3,000,000, requires monthly installments of \$19,425 applied first to interest at the rate of 8.19% per annum with the balance applied to the reduction of principal based on a thirty year amortization schedule. The mortgage matures on April 15, 2018 at which time the unpaid principal balance of approximately \$2,373,651 plus accrued interest, if any, will have to be refinanced or retired. At December 31, 2015, the outstanding balance was \$2,452,925.

The following are required principal payments on the mortgage for each of the next three years, including maturity:

2016	\$ 33,442
2017	36,286
2018	9,546
At Maturity April 15, 2018	2,373,651

##### Supplemental Mortgage

The Corporation's supplemental mortgage, which was used to partially fund the greenhouse restoration project, is held by The Prudential Insurance Company of America. The supplemental mortgage, in the original principal amount of \$3,000,000, requires monthly installments of \$19,376 applied first to interest at the rate of 8.28% per annum with the balance applied to the reduction of principal based on a thirty year amortization schedule. The mortgage matures on April 15, 2018 at which time the unpaid principal balance of approximately \$2,351,010 plus accrued interest, if any, will have to be retired or refinanced. At December 31, 2015, the outstanding balance was \$2,428,465.

## TURTLE BAY TOWERS CORP.

### Notes to Financial Statements

---

#### Note 8. MORTGAGES PAYABLE (continued)

The following are required principal payments on the mortgage for each of the next three years, including maturity:

2016	\$	32,656
2017		35,465
2018		9,334
At Maturity April 15, 2018		2,351,010

#### Prepayment Terms

The mortgages may be prepaid in part or in whole upon at least thirty (30) days written notice prior to such prepayment. The prepayment premium is equal to the greater of 1% of the amount being prepaid multiplied by the quotient of the number of full months remaining divided by the number of full months comprising the term of the loan or a Yield Maintenance Formula. Prepayment may be made without penalty during the fourteen (14) days preceding maturity.

#### Subsequent Event - Refinancing

Subsequent to the balance sheet date, the Corporation locked in a 3.46% interest rate to refinance its mortgages with a new \$32,000,000 loan with Capital One Multifamily Finance, LLC. Terms will require equal monthly installments of \$142,981 applied first to interest at the rate of 3.46% per annum and the balance as a reduction of principal based on a thirty year amortization schedule. The mortgage will have a fifteen year term. The mortgage is expected to close by May 27, 2016.

#### Subsequent Event - Line of Credit

Subsequent to the balance sheet date, the Corporation entered into a commitment to establish a new secured line of credit with Capital One, N.A. in the amount of \$2,000,000. Terms of the credit line will require payments of interest only (on funds drawn from the credit line) at a rate equal to 3.50% above the one month Libor with a floor of 4.50%. The credit line will mature on the earlier of ten years from origination or upon refinancing or repayment of the new first mortgage.

#### Note 9. NOTE PAYABLE

In order to fund the boiler conversion project, on January 20, 2012, the Corporation entered into an unsecured term loan with Capital One Bank in the amount of \$576,000. Terms of the note require monthly installments of \$7,292 applied first to interest at the rate of 5% per annum and the balance as a reduction of principal based on an eight year amortization schedule. The loan is self-liquidating and matures on February 1, 2020. At December 31, 2015, the outstanding balance was \$328,517.

The following are required principal payments on the note for each of the next five years:

2016	\$	72,731
2017		76,452
2018		80,364
2019		84,475
2020		14,495

#### Prepayment Terms

Prepayments in multiples of \$10,000 are permitted during the first or second years of the loan subject to a prepayment premium equal to 1% of the principal prepaid. Prepayment may be made in whole or in part without penalty during years three through maturity.

**TURTLE BAY TOWERS CORP.**

**Notes to Financial Statements**

---

**Note 10. REAL ESTATE TAX ABATEMENTS/SPECIAL ASSESSMENTS**

For the years ended December 31, 2015 and 2014, the Board of Directors approved operating assessments of approximately \$6.70 and \$7.49 per share, respectively, which is approximately equivalent to the real estate tax abatements received by eligible shareholders. The Board of Directors has approved this annual assessment since 2006. Total assessment proceeds for December 31, 2015 and 2014 were \$406,833 and \$454,907, respectively.

**Note 11. GARAGE LEASE**

The Corporation, as lessor under a garage lease, will receive minimum base rents over the next five years as follows:

2016	\$ 270,000
2017	273,375
2018	278,100
2019	281,576
2020	286,443

**Note 12. COMMERCIAL LEASES**

The Corporation, as owner of the commercial office spaces that are rented to 310 East 46, LLC, the prior owner who converted the property to cooperative ownership, receives rental income at the greater of the minimum base rent payments of \$44,000 or 6.7% of heat and hot water, fire and casualty insurance and real estate tax paid by the Corporation. For the years ended December 31, 2015 and 2014, the Corporation received \$308,666 and \$300,494, respectively, from the commercial lessee based upon 6.7% of the aforementioned expenses and metered water usage.

**Note 13. MULTIEMPLOYER UNION AGREEMENT AND PENSION PLAN**

Substantially all of the Corporation's employees are covered by a union sponsored, collectively bargained, multiemployer defined benefit pension, annuity and health insurance plan. Contributions to the plan are determined in accordance with the provisions of the negotiated labor contract. The contract is in effect through April 20, 2018.

Contributions to the Building Service 32BJ Pension Fund are not segregated or otherwise restricted to provide benefits only to the Corporation's employees. The risks of participating in a multiemployer pension plan differ from those of a single-employer pension plan in the following aspects: a) assets contributed to a multiemployer pension plan by one employer may be used to provide benefits to employees of other participating employers, b) if a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers, and c) if the Corporation chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the unfunded status of the plan, which is referred to as the withdrawal liability. The Corporation has no intention of withdrawing from the plan.

**TURTLE BAY TOWERS CORP.**

**Notes to Financial Statements**

---

**Note 13. MULTIEMPLOYER UNION AGREEMENT AND PENSION PLAN (continued)**

The information for 32BJ Service Employees International Union multiemployer pension plan is as follows:

Legal Name:	Building Service 32BJ Pension Fund
Employer Identification Number:	13-1879376
Plan Number:	001
Type of Plan:	Defined Benefit Pension Plan
Plan Year End Date:	June 30, 2015 and June 30, 2014
Certified Zone Status:	Red*
Funding Improvement Plan/Rehabilitation Plan:	Implemented*
Surcharges Paid to Plan in 2015:	None
Pension contributions made:	
Year ended December 31, 2015	\$65,471
Year ended December 31, 2014	\$59,314
Minimum required pension contributions (per week/per employee):	
Year ended December 31, 2014	\$ 94.75
Year ended December 31, 2015	\$ 98.75
Year ending December 31, 2016	\$102.75

\*Certified pension zone status (as defined by the Pension Protection Act) represents the level at which the pension plan is funded. Plans in the red zone are less than 65% funded; plans in the yellow zone are less than 80% funded; and plans in the green zone are at least 80% funded. The pension plan is considered to be in critical status for the plan year beginning July 1, 2015. In order for the plan to achieve yellow and/or green funding status, the trustees of the fund adopted a Rehabilitation Plan which terms have been incorporated into the collective bargaining agreement. The current agreement provides for increased employer contributions of \$4.00 per week per year for each eligible employee.

The information provided above is from the pension plan's most current annual report for the year ended June 30, 2015. The Pension Protection Act Zone Status, the most recent zone status available, was provided to the Corporation by the plan and is certified by the plan's actuary. The Corporation's contributions to the pension plan are less than 5% of all employers' contributions to the plan. There have been no significant changes that would affect the comparability of the contributions for the years ended December 31, 2015 and 2014.

**SUPPLEMENTARY AND PROSPECTIVE INFORMATION**



Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY AND PROSPECTIVE INFORMATION**

To The Board of Directors and Shareholders  
Turtle Bay Towers Corp.

We have audited the financial statements of Turtle Bay Towers Corp. as of and for the years ended December 31, 2015 and 2014, and our report thereon dated February 23, 2016, which expressed an unmodified opinion on those financial statements, appears on Page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supporting Schedules and Comparative Schedules of Revenues and Expenses - Budget, Historical and Budget Forecast, which is the responsibility of the Corporation's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Newman, Newman & Kaufman, LLP*

February 23, 2016 for Historical Statements  
December 22, 2015 for Budget Forecast

Newman, Newman & Kaufman, LLP  
575 Underhill Blvd.  
Suite 100  
Syosset, NY 11791

Rockefeller Center  
One Rockefeller Plaza  
11th Floor  
New York, NY 10020

T 516.364.0700  
F 516.364.9407  
info@nnkllp.com  
www.nnkllp.com

**TURTLE BAY TOWERS CORP.**

**SUPPORTING SCHEDULES - STATEMENTS OF OPERATIONS**

Year Ended December 31,	2015	2014
-------------------------	------	------

**Administrative Expenses:**

**Schedule 1**

Management fee	\$ 140,507	\$ 130,326
Professional fees	62,538	73,435
Other administrative	47,446	52,086
Telephone and communications	<u>11,700</u>	<u>10,101</u>
Total Administrative Expenses	<u>\$ 262,191</u>	<u>\$ 265,948</u>

**Operating Expenses:**

**Schedule 2**

<b>Labor</b>		
Wages	\$ 800,543	\$ 762,804
Union benefits	280,306	255,621
Payroll taxes	64,531	63,213
Workers' compensation and disability insurance	<u>39,411</u>	<u>30,839</u>
	<u>1,184,791</u>	<u>1,112,477</u>
<b>Utilities</b>		
Fuel and gas heat	297,330	328,376
Water and sewer	215,585	219,689
Electricity and gas	<u>188,640</u>	<u>199,151</u>
	<u>701,555</u>	<u>747,216</u>
<b>Other</b>		
Insurance	148,194	142,261
Permits and other operating	<u>13,548</u>	<u>12,124</u>
	<u>161,742</u>	<u>154,385</u>
Total Operating Expenses	<u>\$ 2,048,088</u>	<u>\$ 2,014,078</u>

**Repairs and Maintenance:**

**Schedule 3**

Plumbing repairs	\$ 80,870	\$ 89,585
Materials and supplies	75,818	66,885
Elevator maintenance and repairs	64,855	42,451
Painting, plastering and flooring	58,361	48,538
Equipment repairs	12,924	20,240
Air conditioning	12,412	22,361
Exterminating	12,231	8,069
Doors, locks and windows	11,441	2,039
Electrical and intercom repairs	11,063	5,344
Uniforms	10,484	9,566
Boiler and heating	9,959	2,667
Water treatment service	7,344	6,508
Grounds and plant maintenance	<u>5,662</u>	<u>9,743</u>
Total Repairs and Maintenance	<u>\$ 373,424</u>	<u>\$ 333,996</u>

See Independent Auditor's Report on Supplementary and Prospective Information.

**TURTLE BAY TOWERS CORP.**

**Comparative Schedules of Revenues and Expenses - Budget, Historical and Budget Forecast**

	For The Year		Prior Year	Next Year
	January 1, 2015 - December 31, 2015		January 1, 2014 - December 31, 2014	January 1, 2016 - December 31, 2016
	Budget (Unaudited)	Actual	Actual	Budget Forecast (Unaudited)
<b>REVENUES</b>				
Maintenance	\$ 7,222,400	\$ 7,222,451	\$ 7,222,451	\$ 7,222,400
Operating assessment	406,800	406,833	454,907	403,200
Commercial income (Note 12)	332,000	308,666	300,494	330,500
Garage income	296,000	231,525	297,157	270,000
Other shareholder fees	185,000	197,149	247,995	208,100
Laundry income	<u>70,800</u>	<u>71,175</u>	<u>70,450</u>	<u>70,800</u>
<b>TOTAL REVENUES</b>	<u>8,513,000</u>	<u>8,437,799</u>	<u>8,593,454</u>	<u>8,505,000</u>
<b>EXPENSES</b>				
Management fee	135,500	140,507	130,326	146,100
Professional fees	44,400	62,538	73,435	53,100
Other administrative	32,900	47,446	52,086	36,100
Telephone and communications	7,500	11,700	10,101	10,400
Wages	771,500	800,543	762,804	756,500
Union benefits	278,100	280,306	255,621	294,800
Payroll taxes	65,500	64,531	63,213	64,300
Workers' compensation and disability insurance	35,300	39,411	30,839	34,700
Fuel and gas heat	328,800	297,330	328,376	294,200
Water and sewer	229,700	215,585	219,689	210,700
Electricity and gas	210,300	188,640	199,151	197,100
Insurance	159,500	148,194	142,261	163,300
Permits and other operating	13,100	13,548	12,124	6,300
Repairs and maintenance	269,400	373,424	333,996	335,400
Real estate tax	3,782,800	3,756,709	3,682,306	4,000,900
Mortgage interest and amortization	2,165,200	2,164,067	2,164,142	1,852,000
Loan interest and amortization	87,500	87,129	87,232	87,500
Corporation taxes	<u>46,500</u>	<u>48,425</u>	<u>44,256</u>	<u>48,000</u>
<b>TOTAL EXPENSES</b>	<u>8,663,500</u>	<u>8,740,033</u>	<u>8,591,958</u>	<u>8,591,400</u>
Budgeted Deficit	( 150,500)			( 86,400)
<b>(LOSS) INCOME FROM OPERATIONS BEFORE OTHER ITEMS AND DEPRECIATION AND AMORTIZATION</b>				
		( 302,234)	1,496	
Transfer fees	150,500	315,670	171,550	86,400
Interest income	<u>-</u>	<u>6,487</u>	<u>5,528</u>	<u>-</u>
<b>INCOME BEFORE DEPRECIATION AND AMORTIZATION</b>	<u>\$ -0-</u>	<u>\$ 19,923</u>	<u>\$ 178,574</u>	<u>\$ -0-</u>

See Independent Auditor's Report on Supplementary and Prospective Information and Summary of Significant Accounting Policies and Budget Forecast Assumptions.

## TURTLE BAY TOWERS CORP.

### **Summary of Significant Accounting Policies and Budget Forecast Assumptions Year Ending December 31, 2016**

---

This financial budget forecast presents, to the best of management's knowledge and belief, the Corporation's expected results of operations for the budget forecast period. Accordingly, the budget forecast reflects management's judgment, as of the date of this budget forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the budget forecast. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. The comparative historical information for 2015 and 2014 is extracted from the Corporation's financial statements for those years. Those financial statements should be read for additional information.

#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The budget forecast has been prepared using generally accepted accounting principles that the Corporation expects to use when preparing its historical financial statements.

#### **BUDGET FORECAST ASSUMPTIONS**

##### **Revenues**

Maintenance charges have been computed based on \$9.91 per share per month which remains unchanged from the previous year. An assessment will generate \$403,200 of additional operating revenue. Commercial and garage income is based upon continuation of existing leases.

##### **Expenses**

###### **Utilities**

Reflect increases, if any, based upon industry consensus and rates set by appropriate regulatory agencies.

###### **Labor and Union Benefits**

The Corporation's labor union contract with Local 32B-32J covers substantially all building employees. Labor costs and union benefits are forecasted based upon the contract rates.

###### **Repairs and Maintenance**

Based upon historical experience and expected maintenance requirements.

###### **Mortgage Interest and Amortization**

Assumes mortgage refinancing in May 2016 with a new \$32,000,000 mortgage with an interest rate of 3.46% and a monthly payment of \$142,981.

###### **Real Estate Tax**

Based upon the tax rate of 12.911% for the first half of the year and an estimated tax rate of 13.169% for the second half applied to the 2015/16 assessed value increased by approximately 5%.