

MILTON SPE REALTY, LLC

FINANCIAL STATEMENTS
Year Ended December 31, 2022

HMM, CPAs LLP

AUDIT | TAX | CONSULTING

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Members of:

Milton SPE Realty, LLC

We have reviewed the accompanying financial statements of Milton SPE Realty, LLC, which comprise the balance sheet as of December 31, 2022, and the related statement of operations and members' equity and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Milton SPE Realty, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

HMM, CPAs LLP

Hauppauge, NY 11788
May 23, 2023

MILTON SPE REALTY, LLC

BALANCE SHEET December 31, 2022

ASSETS

ASSETS

PROPERTY AND EQUIPMENT, at cost less
accumulated depreciation

\$ 10,894,700

TOTAL ASSETS

\$ 10,894,700

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Mortgage Payable - Current Portion

\$ 272,406

TOTAL CURRENT LIABILITIES

272,406

DUE TO RELATED PARTIES

3,555,330

MORTGAGE PAYABLE, LESS CURRENT PORTION

7,381,227

TOTAL LIABILITIES

11,208,963

MEMBERS' EQUITY

(314,263)

TOTAL LIABILITIES AND MEMBERS' EQUITY

\$ 10,894,700

The accompanying Notes to Financial Statements are an integral part of this statement.

MILTON SPE REALTY, LLC

STATEMENT OF OPERATIONS AND MEMBERS' EQUITY

Year Ended December 31, 2022

OPERATING INCOME

Rental Revenue	\$ 585,394
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TOTAL OPERATING INCOME

585,394

OPERATING EXPENSES

Interest expense	331,701
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Depreciation expense	268,600
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TOTAL OPERATING EXPENSES

600,301

NET LOSS

(14,907)

MEMBERS' EQUITY

Balance, beginning of year	(299,356)
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BALANCE, END OF YEAR	\$ (314,263)
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The accompanying Notes to Financial Statements are an integral part of this statement.

MILTON SPE REALTY, LLC

STATEMENT OF CASH FLOWS Year Ended December 31, 2022

Cash Flows from Operating Activities

Net Income	\$ (14,907)
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Adjustments to reconcile Net Income to Net Cash	
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Depreciation Expense	268,600
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Amortization of Debt Issuance Costs	30,130
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Net Cash Provided by Operating Activities	<u>283,823</u>
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Cash Flows from Financing Activities

Principal payments on long-term debt	<u>(283,823)</u>
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Net Cash Used in Financing Activities	<u>(283,823)</u>
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Net Increase in Cash, Cash Equivalents, and Restricted Cash	-
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Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	-
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Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ -</u>
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Supplemental Cash Flow Disclosures

Cash Payments for Interest	<u>\$ 301,571</u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

Milton SPE Realty, LLC

NOTES TO FINANCIAL STATEMENTS Year Ended December 31, 2022

(1) Summary of Significant Accounting Policies

Description of Operations - Milton SPE Realty, LLC is the landlord of Milton HC Operating, LLC d/b/a Brush Hill Care Center, ("Nursing Home"), a 160 bed skilled nursing facility located in Milton, Massachusetts. Milton SPE Realty, LLC is referred to interchangeably as "the Company" or "Realty". Milton SPE Realty, LLC (the Realty) owns the land and the building in which the Nursing Home is the main tenant. Both entities commenced operations as limited liability companies in accordance with the Limited Liability Law of the State of Massachusetts. The Nursing Home and the Realty do not have a termination date.

Basis of Accounting - The Company's financial statements are prepared in accordance with accounting principles accepted in the United States of America.

Concentration of Credit Risk - Financial instruments that potentially subject the Company's to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions, which from time to time exceed the Federal Depository Insurance Coverage limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant audit risk.

In 2022, 100% of the Company's revenue was derived from the leases with the Nursing Home.

Property and Equipment - Property and equipment is stated at cost and depreciated over its estimated useful life by the application of the straight-line method. Additions and improvements, which extend the life of the assets, are capitalized, and normal repairs and maintenance are charged to current operations. The costs and related accumulated depreciation of assets retired or disposed of are removed from the related accounts and the resulting gain or loss is reflected in income. The estimated useful lives used are as follows:

Building	40 years
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Long-Lived Assets - The Company assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable by comparing the expected undiscounted future cash flows of the assets within the respective carrying amounts as of the date of assessment. Should aggregate expected future cash flows be less than the carrying value, an impairment would be recognized, measured as the difference between the carrying value and the fair value of the asset. During 2022, the Company did not record any impairment charges.

Revenue Recognition - The Company recognizes rental income on a straight-line basis over the life of the lease agreement. The lessee is obligated to pay all variable lease expenses related to the building, such as real estate taxes and escrows. Deferred or accrued rental revenue is recorded when material.

Use of Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires the company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reported period. Actual events and results could differ from those assumptions and estimates.

Milton SPE Realty, LLC

NOTES TO FINANCIAL STATEMENTS **Year Ended December 31, 2022**

(1) Summary of Significant Accounting Policies (continued)

Variable Interest Entity Election - The Company has an agreement with Milton HC Operating, LLC d/b/a Brush Hill Care Center, (the Lessee) under which the Realty owns the land and building and leases it to the Company. The Company and the Realty have common ownership. The lessee has no ownership interest in the Realty but does guarantee the Realty's debt. The Company has elected to apply the accounting alternative provided to private companies in FASB ASC 810 for certain entities under common control. As a result, the Company has not evaluated nor consolidated the Lessor under common control in accordance with the guidance in the variable interest entities subsection of FASB ASC 810.

Income Taxes - The Company is a limited liability company organized under the laws of the State of Massachusetts and does not incur income taxes. Instead, its earnings are included in the members' personal income tax returns and taxed depending on their personal tax situations. The financial statements, therefore, do not include a provision for income taxes. The Company files income tax returns in the U.S. federal, and state jurisdictions. The Company recognizes the effects of income tax positions only if they are more likely than not of being sustained. Management has determined that the Company has no uncertain tax provisions that would require financial statement recognition.

Debt Issuance Costs - Debt issuance costs, which represent the cost of obtaining certain financing, are deferred and amortized using the straight line method, which approximates the effective interest method over the term of the related indebtedness. Amortization totaled \$30,130 for the year ended December 31, 2022, and is included as a component of interest expense on the statement of income. Total unamortized debt issuance costs as of December 31, 2022 was \$105,454, and is shown net of long-term debt on the balance sheet.

Impact of Coronavirus (COVID-19) - In March 2020, an outbreak of a new strain of coronavirus, COVID-19, emerged as a pandemic in New York State and across the United States, leading to widespread business shutdowns and significant fluctuations in the financial markets. The COVID-19 outbreak has been ongoing and as such, has disrupted supply chains and affected production and sales across a range of industries.

Future potential impacts to the Company may include the lessee's ability to pay the required monthly lease payments. The extent to which COVID-19 impacts the Company's business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of COVID-19. Therefore, the related financial impact cannot be reasonably estimated at this time.

New Accounting Standards- In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance in *Topic 840, Leases*. The FASB subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. Topic 842 amends both lessor and lessee accounting with the most significant change being the requirement for lessees to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet for operating leases.

Milton SPE Realty, LLC

NOTES TO FINANCIAL STATEMENTS Year Ended December 31, 2022

(1) Summary of Significant Accounting Policies (continued)

The Company adopted the leasing standards effective January 1, 2022, using the modified retrospective approach with January 1, 2022 as the initial date of application. The Company elected to use some of the available practical expedients provided in the transition guidance. These allowed the Company to not reassess the identification, classification and initial direct costs of lessor agreements. As of January 1, 2022, adoption of Topic 842 did not result in any material adjustments to balance sheet accounts related to lessor accounting.

Subsequent Events - The Company has evaluated subsequent events through May 23, 2023., the date the financial statements were available to be issued

(2) Property and Equipment

Property and equipment consists of the following:

Land	\$ 1,896,000
Building	10,744,000
Total Cost	12,640,000
Accumulated depreciation	(1,745,300)
Net property and equipment	<u>\$ 10,894,700</u>

The depreciation charged to operations for the year ended December 31, 2022 was \$268,600. The depreciation policies followed by the Company are described in Note (1).

(3) Long - Term Debt

\$8,875,000 Mortgage payable to Salem Five Cents Savings Bank. 10-year amortization, maturing June 30, 2026. Monthly payments approximate \$34,020 (interest only) through June 30, 2018. Beginning July 1, 2018, monthly payments approximate \$52,052 (principal and interest) based on a 276 month amortization. Beginning July 1, 2021, monthly payments approximate \$48,783 (principal and interest) with the updated interest rate. Interest was 4.60% through June 30, 2021 and reset to 3.73% beginning July 1, 2021. Secured by the mortgage, assignment of leases and rents and a security agreement.

\$ 7,759,087

Less: Unamortized debt issuance costs

(105,454)

Total debt

7,653,633

Less: Current Portion of long-term debt

(272,406)

Total Long Term Debt

\$ 7,381,227

Milton SPE Realty, LLC

NOTES TO FINANCIAL STATEMENTS Year Ended December 31, 2022

(3) Long - Term Debt (continued)

Maturities of long-term debt are as follows:

2023	272,406
2024	285,205
2025	298,604
2026	312,633
2027 and thereafter	6,590,239
Total	<u>\$ 7,759,087</u>

Total interest expense related to the mortgage for the year ended December 31, 2022 was \$331,701.

The mortgage contains certain covenant requirements, including calculation of certain financial ratios. The Realty was in compliance with these requirements as of December 31, 2022.

(4) Lease Agreements

A 30 year lease between the Realty and Milton HC Operating, LLC d/b/a Brush Hill Care Center ("Nursing Home"), which expires in June 2046, obligates the Nursing Home to pay all costs of rent, real estate taxes, maintenance, utilities and insurance. Rent income charged to the nursing home for the year ended December 31, 2022 was \$585,394. The Realty and the Nursing Home have common ownership.

The Realty assessed the classification of the lease and determined the lease was an operating lease. The components of rental revenue for the year ended December 31, 2022 were as follows:

Fixed Lease Payments	\$ 585,394
Rental Revenue	<u>\$ 585,394</u>

As of December 31, 2022, all of the Realty's fixed assets are subject to the operating lease.

The following is an analysis of the maturity of the undiscounted operating lease payments:

2023	\$ 585,396
2024	585,396
2025	585,396
2026	585,396
2027	585,396
2028 and Thereafter	10,829,826
Total future minimum payments required	<u>\$ 13,756,806</u>

Milton SPE Realty, LLC

NOTES TO FINANCIAL STATEMENTS Year Ended December 31, 2022

(5) Transactions with Related Parties

The Company lent and borrowed monies from entities affiliated via common ownership to fund the acquisition of the land and building. These amounts accrue no interest and have no set repayment terms.

The amounts due to related parties at December 31, 2022 was:

	<u>12/31/22</u>
Due to Related Parties	<u>3,555,330</u>
Total Due to Related Parties	<u>\$ 3,555,330</u>