

MYSTIC CT SENIOR HOLDINGS, LLC
CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION)
TO DECEMBER 31, 2022



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**MYSTIC CT SENIOR HOLDINGS, LLC
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INDEPENDENT AUDITOR'S REPORT

Member
Mystic CT Senior Holdings, LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Mystic CT Senior Holdings, LLC, which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of operations, member's equity, and cash flows for the period then ended, and the related consolidated notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mystic CT Senior Holdings, LLC, as of December 31, 2022, and the results of its operations and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mystic CT Senior Holdings, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mystic CT Senior Holdings, LLC's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Member
Mystic CT Senior Holdings, LLC

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mystic CT Senior Holdings, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mystic CT Senior Holdings, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

West Des Moines, Iowa
March 6, 2023

**MYSTIC CT SENIOR HOLDINGS, LLC
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2022**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 5,609,946
Accounts Receivable, Net of Allowance for Doubtful Accounts (\$31,147)	672,682
Prepaid Expenses and Other	859,484
Assets Limited as to Use or Restricted	901,327
Total Current Assets	<u>8,043,439</u>

Assets Limited as to Use or Restricted	2,757,865
Operating Property, Net of Accumulated Depreciation	111,118,959
Goodwill, Net of Accumulated Amortization	27,707,398
Intangible Asset, Net of Accumulated Amortization	13,457,234
Cost of Acquiring Contracts, Net of Accumulated Amortization	<u>177,243</u>

Total Assets	<u><u>\$ 163,262,138</u></u>
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LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES

Accounts Payable, Trade	\$ 678,709
Accounts Payable, Affiliates	38,172
Accrued Expenses	996,052
Refundable Deposits from Prospective Residents, Escrowed	901,327
Resident Contract Liability, Current Portion	761,250
Total Current Liabilities	<u>3,375,510</u>

Deferred Revenue	28,871,489
Term Loan Payable, Net of Unamortized Financing Costs	59,226,996
Resident Contract Liability, Less Current Portion	33,317,907
Loans from Residents	4,961,345
Total Liabilities	<u>129,753,247</u>

COMMITMENTS AND CONTINGENCIES

MEMBER'S EQUITY

	<u>33,508,891</u>
Total Liabilities and Member's Equity	<u><u>\$ 163,262,138</u></u>

See accompanying Notes to Consolidated Financial Statements.

MYSTIC CT SENIOR HOLDINGS, LLC
CONSOLIDATED STATEMENT OF OPERATIONS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

REVENUES

Amortization of Nonrefundable Entrance Payments	\$ 2,016,739
Working Capital Fees	264,039
Apartment Revenues	8,167,439
Health Care Revenues	4,580,411
Other Revenues	8,122
Total Revenues	<u>15,036,750</u>

OPERATING EXPENSES

General and Administrative	2,800,214
Plant	1,956,075
Environmental Services	749,208
Dietary	2,079,278
Medical and Resident Care	3,818,754
Acquisition Costs	1,247,877
Depreciation and Amortization	4,325,362
Total Operating Expenses	<u>16,976,768</u>

LOSS FROM OPERATIONS (1,940,018)

OTHER EXPENSES

Interest Expense, Net Including Interest Accretion	<u>(4,051,091)</u>
Total Other Expenses	<u>(4,051,091)</u>

NET LOSS \$ (5,991,109)

See accompanying Notes to Consolidated Financial Statements.

MYSTIC CT SENIOR HOLDINGS, LLC
CONSOLIDATED STATEMENT OF MEMBER'S EQUITY
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

BALANCE - BEGINNING OF PERIOD	\$ -
Contributions from Member	43,600,000
Distributions to Member	(4,100,000)
Net Loss	<u>(5,991,109)</u>
BALANCE - END OF PERIOD	<u>\$ 33,508,891</u>

See accompanying Notes to Consolidated Financial Statements.

MYSTIC CT SENIOR HOLDINGS, LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Net Loss	\$ (5,991,109)
Adjustments to Reconcile Net Loss to Net Cash	
Provided by Operating Activities:	
Depreciation and Amortization	4,325,362
Amortization of Financing Costs	25,956
Amortization of Nonrefundable Entrance Payments	(2,016,739)
Interest Accretion on Acquired Resident Contracts	2,569,039
Changes in Operating Assets and Liabilities:	
Accounts Receivable	(95,458)
Prepaid Expenses and Other	(500,680)
Accounts Payable, Trade	(285,157)
Accounts Payable, Affiliate	25,767
Accrued Expenses	92,709
Refundable Deposits from Prospective Residents, Escrowed	99,860
Deferred Revenue	4,582,507
Net Cash Provided by Operating Activities	<u>2,832,057</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of Community	12,722,879
Additions to Operating Property, Net	(2,207,970)
Additions to Costs of Acquiring Contracts	(182,183)
Net Cash Provided by Investing Activities	<u>10,332,726</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Distributions to Member	(4,100,000)
Proceeds from Loans from Residents	4,961,345
Repayment of Resident Contract Liability	(4,756,990)
Net Cash Used by Financing Activities	<u>(3,895,645)</u>

NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

9,269,138

Cash, Cash Equivalents, and Restricted Cash - Beginning of Period

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CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF PERIOD

\$ 9,269,138

See accompanying Notes to Consolidated Financial Statements.

MYSTIC CT SENIOR HOLDINGS, LLC
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

SUPPLEMENTAL SCHEDULE - CASH PAID FOR INTEREST	<u><u>\$ 1,171,807</u></u>
SUPPLEMENTAL SCHEDULE - OPERATING PROPERTY IN ACCOUNTS PAYABLE	<u><u>\$ 274,882</u></u>
SUPPLEMENTAL SCHEDULE - CASH RECONCILIATION	
Cash and Cash Equivalents	\$ 5,609,946
Assets Limited as to Use or Restricted	<u>3,659,192</u>
Total Cash, Cash Equivalents, and Restricted Cash	<u><u>\$ 9,269,138</u></u>

See accompanying Notes to Consolidated Financial Statements.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Mystic CT Senior Holdings, LLC (HoldCo), a Delaware limited liability company, was formed on March 9, 2016. HoldCo owns a 100% interest in Stoneridge Senior Care, LLC (OpCo), a Delaware limited liability company, and Mystic CT Senior Property, LLC (PropCo), a Delaware limited liability company. StoneRidge JV LLC (the Parent), a Delaware limited liability company formed on March 15, 2022, owns a 100% interest in HoldCo. LCS Milwaukee I LLC (LCSM), an Iowa limited liability company (the Managing Member), owns a 10% interest, RCI Senior Living Real Estate, LLC owns a 75% interest, and MPM StoneRidge JV Investors, LLC owns 15% interest in the Parent, collectively the Capital Balance Members. The Company holds title to and operates a continuing care retirement community (dba: StoneRidge) in Mystic, Connecticut (the Community).

Use of Estimates

Due to normal business uncertainties, management must estimate some information included in the consolidated financial statements presented in conformity with accounting principles generally accepted in the United States of America. Actual results could, and probably will, differ from those estimates. Due to the uncertainties inherent in such estimates, it is at least reasonably possible that the estimates could change materially in the near term.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of HoldCo, PropCo, and OpCo, collectively, the Company. Intercompany transactions and balances have been eliminated in the preparation of the accompanying consolidated financial statements.

Cash and Cash Equivalents

The Company considers investments with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are stated net of allowance for doubtful accounts. Management determines the allowance for doubtful accounts by reviewing each account for its potential for collection. Accounts are routinely reviewed and written off when deemed uncollectible.

Assets Limited as to Use or Restricted

Entrance Payments, prior to occupancy, are held in escrow and invested in shares of a money market fund. These funds remain the property of the prospective residents unless and until available to be released to the Company as provided for in the escrow agreement. The amount of the escrowed Entrance Payments at December 31, 2022 was \$901,327 and is classified as current assets.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use or Restricted (Continued)

The Reserve Fund Escrow, as required by the state of Connecticut, is to be equal to at least one month's cash operating costs of the Community, plus six month's debt service. The amount of the Reserve Fund Escrow at December 31, 2022 was \$2,257,865.

The Health Center Reserve, established by OpCo in the amount of \$500,000, is to secure a portion of the loans of the residents who are permanently assigned to the health center. The amount of the Health Center Reserve at December 31, 2022 was \$500,000.

Assets limited as to use or restricted are all invested in cash and cash equivalents.

Operating Property

Operating property acquired was accounted for at fair value in accordance with accounting guidance for purchase accounting. Operating property acquired after inception is carried at cost. Depreciation is being computed by the straight-line method over the estimated useful lives of the respective assets.

Goodwill

Goodwill represents the excess of purchase price over the underlying assets acquired. Goodwill of \$29,412,161 as of December 31, 2022 is being amortized over ten years. Accumulated amortization related to goodwill was \$1,704,763 as of December 31, 2022. Amortization expense was \$1,704,763 for the period ended December 31, 2022.

Intangible Asset

As part of the Acquisition, an intangible asset with a value of \$14,540,000 related to in-place resident relationships was recorded. The balance is being amortized on a straight-line basis over a 94-month period, which is the average estimated remaining life of the acquired resident contracts. Amortization expense for the in-place resident contracts was \$1,082,766 for the period ended December 31, 2022. Future amortization expense is \$1,856,170 for each of the years ended December 31, 2023 through 2029, and \$464,043 for the year ended December 31, 2030.

Cost of Acquiring Contracts

Cost of acquiring contracts are incremental costs incurred in obtaining a Residency Agreement that would not have been incurred had the Residency Agreement not been obtained. Costs are associated with individual agreements and amortized based on the remaining life expectancy of those residents. Cost of acquiring contracts was \$182,183 as of December 31, 2022. Accumulated amortization was \$4,940 as of December 31, 2022. Amortization expense was \$4,940 for the period ended December 31, 2022.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Company is not subject to income taxes. Each Capital Balance Member is taxed on its share of the Company's taxable income, whether or not distributed, and reports on its tax return, its share of any net income or loss of the Company. As a consequence, no provision is made in these financial statements for income taxes, or penalties and interest thereon.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) for an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has evaluated their material tax positions and determined there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in these consolidated financial statements. The Company is subject to routine audits by tax authorities; however, there are currently no audits for any tax periods in progress.

Revenues

The resident pays an Entrance Payment, net of funds previously escrowed, consisting of a First Person Fee (and Second Person Fee, if applicable) and a Loan. The First Person Fee is recorded as deferred revenue and is amortized into income over the estimated life expectancy of the residents, adjusted annually based on the actuarially determined life expectancy of the individuals occupying the unit.

The resident pays a working capital fee equal to the then-current monthly fee (described below). When the right to access a residential unit is established, this one-time nonrefundable fee is recognized as income. Its use is restricted for purposes specified in the Residency Agreements.

Residents pay a monthly fee, determined annually. The Residency Agreements provide that residents pay the funds required to operate the Community, which includes all operating expenses, debt service for nonresident debt, repairs and replacements, capital improvements, and working capital. The monthly fee may only be used for purposes specified in the Residency Agreements.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues (Continued)

Resident revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing resident services. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Revenue is recognized as performance obligations are satisfied, and the resident receives and controls the good or service.

Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the community. The Company measures the performance obligation from admission into the community, to the point when it is no longer required to provide services to the resident, which is generally at the time of death or move-out.

Health Care Revenues

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from the Company's established rates. Payment arrangements include prospectively determined per diem payments. Revenue is recognized as performance obligations are satisfied. Health care revenues are reported at the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors and implicit price concessions provided to residents. See Note 7 for additional information on health care revenues.

Obligation to Provide Future Services

The Company periodically calculates the present value of the net cost of future services and use of facilities to be provided to current residents, which is compared to the balance of deferred entrance fees and estimated future monthly service fees. If the present value of the net cost of future services and use of facilities exceeds the deferred entrance fees and estimated monthly service fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. As of December 31, 2022, there was no need to record a liability for an obligation to provide future services and use of facilities.

Adoption of New Accounting Standards

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The update primarily addresses the accounting for contract assets and contract liabilities from revenue contracts with customers acquired in a business combination.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 2 ACQUISITION

Effective June 15, 2022, StoneRidge JV LLC acquired the Company. The operating results of the acquired business are reflected in the Company's statement of operations from the acquisition date forward.

The transaction was accounted for under acquisition method of accounting with the individual assets acquired and liabilities recorded at their fair value as of the date of the acquisition. The fair value of goodwill and intangible assets was determined by an external valuation process. The discount rate used on the resident contract liability was 5.5%.

The purchase price amounts were allocated as follows:

Cash and Cash Equivalents	\$ 7,936,588
Assets Limited as to Use	3,538,414
Accounts Receivable	625,555
Prepaid Expenses and Other	339,470
Operating Property	110,169,000
Goodwill	29,412,161
Intangible Asset	14,540,000
Accounts Payable, Trade	(688,984)
Accounts Payable, Affiliates	(12,405)
Accrued Expenses	(884,009)
Refundable Deposits from Prospective Residents	(801,467)
Deferred Revenue	(26,486,351)
Term Loan Payable, Net of Unamortized Financing Costs	(59,201,040)
Resident Contract Liability	(36,134,809)
Acquisition Costs	1,247,877
Member's Equity	(43,600,000)

NOTE 3 RELATED PARTY TRANSACTIONS

The Company has a client services agreement with Life Care Services LLC (affiliated through common ownership with LCSM) to provide management services relating to the operations of the Community. For the period ended December 31, 2022, \$623,031 had been expensed and earned under the agreement. At December 31, 2022, the Company had a payable to Life Care Services LLC of \$38,172.

The Company has an agreement with LCS Community Employment LLC (LCE) (affiliated through common ownership with LCSM) to provide employment services for the Community. At December 31, 2022, the Company had no amounts due to LCE relating to salaries and benefits.

In the normal course of operations, the Company purchases from affiliates of LCSM services for group purchasing, insurance, computing technology, and related ancillary matters.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 4 RESIDENCY AGREEMENTS

As part of the acquisition of operations of the Community on June 15, 2022, the Company acquired existing resident contracts. Included in resident contracts are multiple contract types with repayment of the Entrance Payments made in accordance with the terms of the loan agreements. The resident contract liability has been recorded at fair value at the time of the acquisition. Interest accretion on acquired contracts is recorded over the average remaining life expectancy of the residents or until repaid, if sooner.

After June 15, 2022, the Company has entered into Residency Agreements (Agreements) with residents and prospective residents of the Community. The Agreements provide for the lifetime use, under certain conditions, of a living unit upon receipt of an Entrance Payment consisting of a First Person Fee (and Second Person Fee, if applicable) and a Loan. The Entrance Payment is deposited in an escrow account and will be released to the Company only after the occurrence of certain events as described in the Agreements. Prior to occupancy, Entrance Payments are refundable, subject to limitations in the Agreements. The amount of Entrance Payments that were escrowed and refundable at December 31, 2022 was \$901,327.

At the time of occupancy, the portion of the Entrance Payment that is ultimately nonrefundable is recorded as deferred revenue and is amortized to revenue as described in Note 1.

The Agreements also provide for the occupants to pay a monthly fee.

Performance obligations are determined based on the nature of the services provided by the Company. Performance obligations satisfied over time can vary throughout the life of the Residency Agreement depending on the resident's care setting. Generally, performance obligations to residents in independent living can include housing and other services, such as access to common areas, meals at dining venues, planned activities and events, housekeeping, and security.

Performance obligations for all other care settings have a component of health care, which is discussed in more detail in Note 1. The Company measures the performance obligation from admission into the community, to the point when it is no longer required to provide services to that resident, which is generally at the time of death or move-out.

The Agreements also provide that at occupancy or within a period of time as defined in the Agreements, the resident will make a Loan to the Company. The Loans bear no interest and shall be repaid upon vacancy and the lesser of 36 months or re-occupancy, whichever occurs first. If internal transfers occur the repayment is tied to the last vacant unit. The Loans of all residents will be secured by a mortgage on the real estate owned by the Company and will be subject to certain permitted encumbrances.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 5 OPERATING PROPERTY

Operating property consists of the following at December 31:

	<u>Estimated Useful Lives</u>	
Land		\$ 13,440,000
Buildings and Fixed Equipment	5 - 40 Years	98,506,277
Equipment and Furnishings	3 - 10 Years	<u>235,289</u>
Subtotal		112,181,566
Less: Accumulated Depreciation		(1,532,892)
Remodel Projects		<u>470,285</u>
Total		<u><u>\$ 111,118,959</u></u>

NOTE 6 TERM LOAN PAYABLE, NET OF UNAMORTIZED FINANCING COSTS

On June 15, 2022, the Company entered into a Term Loan Agreement with Bank of America. The Term Loan Agreement is a borrowing in the amount of \$59,512,500. The Borrowings under the loan bear interest at a variable rate equal to the sum of the Term SOFR Rate plus a credit spread adjustment of 1.71%. The Term Loan Agreement will mature in June 2029.

The balance of the Term Loan Payable at December 31, 2022 is as follows:

Term Loan Payable	\$ 59,512,500
Less: Unamortized Financing Costs	<u>(285,504)</u>
Total	<u><u>\$ 59,226,996</u></u>

As of December 31, 2022, approximate aggregate maturities of the Term Loan Payable are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ -
2024	-
2025	635,400
2026	1,302,000
2027	1,362,000
Thereafter	<u>56,213,100</u>
Total	59,512,500
Less: Unamortized Financing Costs	<u>(285,504)</u>
Total	<u><u>\$ 59,226,996</u></u>

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 6 TERM LOAN PAYABLE, NET OF UNAMORTIZED FINANCING COSTS (CONTINUED)

Financing costs represent expenses incurred in obtaining long-term financing. These costs are being amortized over the term of the agreement by the straight-line method as an approximation of the effective interest method. Financing costs of \$311,460 as of December 31, 2022 are being amortized over the life of the loan. Accumulated amortization related to the financing costs was \$25,956 as of December 31, 2022. Interest expense related to the amortization was \$25,956 for the period ended December 31, 2022.

The Term Loan Agreement includes various covenants requiring adherence to be in compliance with the terms of the Term Loan Agreement.

The Term Loan Agreement was secured by substantially all assets of the Company including all Entrance Payments without limitation.

NOTE 7 HEALTH CARE REVENUES

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Company participates in the Medicare program. This federal program is administered by the Centers of Medicare and Medicaid Services (CMS). The Company is paid under the Patient Driven Model (PDPM) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing services. Under PDPM, therapy minutes are removed as the primary basis for payment and instead uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM utilizes variable adjustment factors that change reimbursement rates during the resident's length of stay.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 7 HEALTH CARE REVENUES (CONTINUED)

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Adjustments arising from a change in an implicit price concession impacting transaction price, were not significant in 2022.

Generally residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Company estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to health care revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the Resident's ability to pay are recorded as bad debt expense.

Health care revenues from the Medicare program accounted for approximately 24% and 30% of the total health care revenues in 2022 and 2021, respectively. Revenues from the Medicare program accounted for approximately 8% of total revenues in 2022.

NOTE 8 EMPLOYEE RETIREMENT BENEFIT PLAN

Available to all eligible employees of LCE, is a defined contribution employee retirement benefit plan (the Plan). The Company accrued matching contributions of \$88,311 for the period ended December 31, 2022, to be remitted to the Plan in 2023. The Plan matches 100% of the first 3% of the participant's eligible contributions plus 50% of the next 2% of eligible contributions.

NOTE 9 COMMITMENTS AND CONTINGENCIES

The Company, in the normal course of operations, is exposed to risk and involvement in legal actions and proceedings. To the extent available at costs believed reasonable by the Company, it maintains insurance coverages for various types of risk. Based on the Company's past experience, management believes that any legal actions or proceedings will not have a material effect on the financial position of the Company.

Because of the various regulations surrounding government reimbursed medical costs, there can be no assurance that the reimbursements will be equal to or exceed costs to provide such services.

MYSTIC CT SENIOR HOLDINGS, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM JUNE 15, 2022 (INCEPTION) TO DECEMBER 31, 2022

NOTE 10 SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 6, 2023, the date which the financial statements were available to be issued. There were no subsequent events requiring accrual or disclosure.



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