NELP-Commons, LLC and Subsidiary

Financial Report
December 31, 2022

Contents

Independent Auditor's Report

Member
NELP-Commons, LLC and Subsidiary

Opinion

We have audited the consolidated financial statements of NELP-Commons, LLC and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of operations, changes in member's deficit and cash flows for the period from December 22, 2021 (inception) through December 31, 2022, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the period from December 22, 2021 (inception) through December 31, 2022 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 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 the Company'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

RSM US LLP

Des Moines, Iowa
April 28, 2023

NELP-Commons, LLC and Subsidiary

Consolidated Balance Sheet
December 31, 2022

Assets	
Cash and cash equivalents	$ 10,032,086
Restricted cash	8,643,778
Accounts receivable, less allowance for doubtful accounts	811,205
Prepaid expenses and other assets	392,745
Property, plant and equipment, net	99,094,645
Intangible assets, net	44,010,599
	$ 162,985,058
Liabilities and Member's Deficit	
Liabilities:	
Accounts payable and accrued expenses	$ 2,048,347
Deferred revenue, resident services	477,882
Deferred revenue, nonrefundable entrance fees	1,705,711
Permanent financing, net of unamortized deferred financing costs	91,300,000
Refundable entrance fee contracts	90,368,969
	185,900,909
Member’s deficit	(22,915,851)
	$ 162,985,058

See notes to consolidated financial statements.

NELP-Commons, LLC and Subsidiary

Consolidated Statement of Operations
From December 22, 2021 (Inception) Through December 31, 2022

Revenues:	
Resident services	$ 26,382,378
Entrance fee amortization, nonrefundable portion	105,789
Other	366,577
Total revenues	26,854,744
Operating expenses:	
Salaries, wages and benefits	14,469,556
Resident service costs	5,000,445
Management fees	1,681,176
Property and other taxes	1,431,079
Utilities	1,231,338
General and administrative	1,166,433
Marketing	770,691
Insurance	321,386
Total resident operating expenses	26,072,104
Net operating income before certain expenses	782,640
Other operating expenses:	
Depreciation	2,720,070
Amortization of intangible assets	7,589,401
	10,309,471
Operating loss	(9,526,831)
Financial expenses:	
Amortization of deferred financing costs	3,488,216
Interest on permanent financing	5,935,850
Accretion of interest on acquired resident contracts	3,964,954
	13,389,020
Net loss	$ (22,915,851)

See notes to consolidated financial statements.

NELP-Commons, LLC and Subsidiary

Conolidated Statement of Member's Deficit
From December 22, 2021 (Inception) Through December 31, 2022

Formation of entity, December 22, 2021	$ -
Net loss	(22,915,851)
Balance, December 31, 2022	**$ (22,915,851)**

See notes to consolidated financial statements.

NELP-Commons, LLC and Subsidiary

Consolidated Statements of Cash Flows
From December 22, 2021 (Inception) Through December 31, 2022

Cash flows from operating activities:	
Net loss	$ (22,915,851)
Adjustments to reconcile net loss to net cash used in operating activities:	
Nonrefundable entrance fee amortization	(105,789)
Depreciation	2,720,070
Amortization of deferred financing costs	3,488,216
Amortization of intangible assets	7,589,401
Accretion of interest on acquired resident refundable deposits	3,964,954
Change in working capital components:	
Accounts receivable	(811,205)
Prepaid expenses and other assets	(392,745)
Accounts payable and accrued expenses	722,164
Deferred revenue	477,882
Deferred revenue, nonrefundable entrance fees	1,811,500
Net cash used in operating activities	(3,451,403)
Cash flows from investing activities:	
Acquisition of Community	(70,151,960)
Purchases of property, plant and equipment	(1,468,721)
Net cash used in investing activities	(71,620,681)
Cash flows from financing activities:	
Proceeds from refundable deposits	12,588,064
Repayments of refundable deposits	(6,651,900)
Payment of financing costs	(3,488,216)
Borrowings from mortgage payable	91,300,000
Net cash provided by financing activities	93,747,948
Net change in cash, cash equivalents and restricted cash	18,675,864
Cash, cash equivalents and restricted cash, beginning of period	-
Cash, cash equivalents and restricted cash, end of period	$ 18,675,864
Supplemental disclosures of cash flow information:	
Cash paid for interest	$ 5,706,332
Capital expenditures included in accounts payable and accrued expenses	$ 231,244

See notes to consolidated financial statements.

Note 1. Organization

NELP-Commons, LLC and Subsidiary (the Company) was formed in December 2021 to own and operate a senior living community located in Lincoln, Massachusetts, known as The Commons in Lincoln (the Community). The Company acquired the Community on December 22, 2021 (date of acquisition), through an asset acquisition. The Community is situated on a 30 acre campus consisting of 168 independent living units across two main apartment-style buildings and 38 cottages. The Community also includes a health care facility (health center) consisting of a 40 unit assisted living facility, a 24 unit memory care facility, a 32 bed skilled nursing facility and an assisted rehabilitation unit on site to provide the services of a continuing care retirement community (CCRC). As of December 31, 2022 NELP-Commons, LLC is wholly owned by Infrastructure Financial Services, an Arizona nonprofit corporation. Subsequent to December 31, 2022, the ownership was assigned and transferred to New England Life Plan Communities Corp., a Massachusetts nonprofit corporation.

NELP-Commons, LLC is the sole member of NELP-Commons Flint House, LLC, a subsidiary formed to lease the affordable housing component of the Community. Under the provisions of the Company's Regulatory Agreement with the Commonwealth of Massachusetts administered through the Department of Housing and Community Development (DHCD), eight of the Community's independent living units are designated as low and moderate income units. Monthly rental rates for these units are restricted to maximum allowable amounts based on the residents' income.

Note 2. Significant Accounting Policies

Consolidation: The accompanying consolidated financial statements (collectively, the financial statements) include the accounts of NELP-Commons, LLC and its wholly owned subsidiary, NELP-Commons Flint House, LLC. All significant intercompany accounts and transactions have been eliminated.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash, cash equivalents and restricted cash: Cash and cash equivalents include highly liquid financial instruments with maturities of three months or less at the date of purchase. The Company maintains its cash primarily in depository accounts at two financial institutions. The account balances may exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage of $250,000, and as a result there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Management believes, based on the quality of the financial institutions, that the risk is not significant.

Restricted cash includes various reserves restricted under the bond indenture agreement and a waste-water replacement reserve.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheet that sum to the total of the same such amounts shown in the statements of cash flows for the period ended December 31:

	2022
Cash and cash equivalents	$ 10,032,086
Restricted cash	8,643,778
	$ 18,675,864

Note 2. Significant Accounting Policies (Continued)

Accounts receivable: Resident accounts receivable result from the monthly resident service fees, and other related services provided by the Community and are shown net of an allowance for doubtful accounts of $77,964 as of December 31, 2022. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, economic conditions, trends in Medicare health care coverage and other indicators.

Property, plant and equipment: Property, plant and equipment acquired with the purchase of the Community was accounted for at fair value at the acquisition date in accordance with *FASB Accounting Standards Codification* (ASC) 805, Business Combinations. Property, plant and equipment purchased after the date of acquisition is carried at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of five to 40 years. Costs associated with construction in progress are capitalized to property, plant and equipment and are depreciated once placed into service. Costs for repairs and maintenance are expensed as incurred.

Intangible assets: In-place resident contracts represent the fair value assigned to the acquired contracts with existing residents upon acquisition of the Community, which will be amortized on a straight-line basis over the 7-year average estimated life of the in-place residents on the date of acquisition. Accumulated amortization of the in-place resident contracts totaled $7,589,401 as of December 31, 2022. Estimated amortization expense related to intangibles for each of the years ending December 31, 2023 through December 31, 2027 is $7,371,429. Estimated amortization for the year ended December 31, 2028 is $7,153,457.

Impairment of long-lived assets: Long-lived assets, including amortizable intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of such property or asset may not be recoverable. Management determined that no indicators of impairment of long-lived assets existed as of December 31, 2022.

Deferred financing costs: Deferred financing costs consist of costs incurred in obtaining the permanent financing, which are amortized using the effective interest method over the term of the related permanent financing. These costs are recorded against permanent financing in the accompanying balance sheet. Accumulated amortization of deferred financing fees totaled $3,488,216 as of December 31, 2022.

Waitlist deposits: A prospective resident pays a deposit, equal to 10% of the total primary entrance fee due upon execution of a continuing care contract (Contract), to reserve a unit and be placed on the waiting list. The deposit is held in escrow and is fully refundable until the execution of a Contract, at which time it becomes refundable only as and to the extent specified in the Contract. As of December 31, 2022, there were no waitlist deposits.

Entrance fee contracts: Each independent living resident is required to pay an entrance fee when the unit is ready for possession consisting of a 10% nonrefundable first person fee, a nonrefundable second person fee, if applicable, and a 90% refundable first person fee. The 10% nonrefundable portion of the fee, and any second person fee paid, are recorded as nonrefundable entrance fees and amortized to income over the estimated stay of the resident.

Note 2. Significant Accounting Policies (Continued)

The remaining 90% is non-interest-bearing and refundable, less any allowable offsets and deductions, upon the sooner of 10 years from the date of termination of the contract or 60 days from receipt of payment on a new contract by a subsequent resident for the same unit, provided, however, that if, despite marketing efforts there has been no resale of the applicable unit, the Company may in its sole discretion notify the resident who will have the option of directing the Company to continue sales efforts or to accept, in lieu of the entrance fee refund otherwise due, an amount that equals the total entrance fee less 1% of such entrance fee per month of occupancy. As the entrance fee repayment is not limited to the proceeds of a subsequent sale of the same unit, the refundable portion of the contract is recorded as a liability in the financial statements.

Refundable entrance fees associated with Contracts acquired at acquisition with various refundable terms were recorded at fair value at the date of acquisition. The fair value of those refundable entrance fees are being accreted to face value using the effective interest method over the estimated life expectancy of the in-place residents at acquisition using a discount rate of 4.3%. As of December 31, 2022, the unamortized discount was approximately $22,469,923.

Obligation to provide future services (FSO): The Company annually calculates, in accordance with GAAP, the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from nonrefundable entrance fees, plus the depreciation related to resident contracts, plus the unamortized cost of in-place resident contracts. If the present value of the net cost of providing future services and use of facilities exceeds the unamortized deferred revenue from nonrefundable advance fees, depreciation and amortization, a liability is recorded for the obligation to provide future services and facilities. There was no FSO obligation as of December 31, 2022.

Income taxes: The Company is a disregarded entity for income tax purposes and therefore is not subject to income taxes. The Company's Member reports the Company's taxable income, whether or not distributed, on its tax return. Therefore, no provision is made in these financial statements for income taxes, or penalties and interest thereon.

In accordance with GAAP, management has evaluated material tax positions and determined there were no uncertain tax positions that require adjustments to the financial statements. The Commons has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Revenue recognition: The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when or as performance obligations are satisfied.

Independent and assisted living: Resident fees at independent and assisted living facilities consist of monthly charges for basic housing and support services. Prior to admission to the community, an entrance fee contract is required. In addition, residents can be directly admitted to the assisted living facility. Fees for residents under these agreements are recorded monthly. The Company has determined the basic rent and support services to residents are one performance obligation. Nonrefundable entrance fees are considered to contain a material right associated with living in the Community and access to future services, which is the performance obligation for these amounts. There also may be ancillary services provided that are not included in the monthly fees that are considered separate performance obligations for which revenue is recognized as the services are provided.

Note 2. Significant Accounting Policies (Continued)

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 the monthly resident fee and entrance fee amortization for residents with life care contracts. The Company measures the performance obligation from the move in date through the estimated life expectancy of the resident which is based upon published mortality tables. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Company does not believe it is required to provide additional goods or services to the resident.

Resident healthcare revenue: Resident healthcare revenue is derived from providing care in the Company's health center to residents requiring long-term or specialized care and is reported at the amount that reflects the consideration for which the Company expects to be entitled to in exchange for providing resident care. Amounts are based off of daily rates which are generally fixed and are due from residents and/or third-party payors, including Medicare. The Company determines the transaction price based on standard charges adjusted for explicit price adjustments consisting of contractual allowances provided third-party payors and discounts provided in conjunction with the resident agreements. Revenue is recognized as the performance obligation is satisfied.

Patient care services in the health center represent a bundle of services based on the needs of the resident and are not capable of being distinct, accordingly, the Company has determined that the overall provision of a day of healthcare services to a resident is one performance obligation.

Healthcare services rendered to Medicare beneficiaries were reimbursed based on a classification system referred to as a Patient Driven Payment Model (PDPM). These rates are determined annually and are based on the care needs of the resident and the type and intensity of therapy services provided to the resident. PDPM per diem payments are adjusted during a resident's stay to reflect varying costs throughout the time the resident is in the facility.

Subsequent events: Management has evaluated subsequent events for potential recognition and disclosure through April 28, 2023, the date the financial statements were available to be issued.

Note 3. Acquisition

On December 22, 2021, the Company acquired the Community from an unrelated third party with cash from the proceeds of issuance of bonds for $70,151,960. In accordance with GAAP, the transaction was accounted for using the acquisition method of accounting, with the purchase price allocated based on fair value of the assets acquired and the liabilities assumed. In determining the relative fair values of the tangible assets acquired and liabilities assumed, the Company utilized an independent appraisal.

The following summarizes the allocation of the purchase price:

Land	$ 10,010,000
Buildings	88,454,750
Furniture, fixtures and equipment	1,650,000
In-place resident contracts	51,600,000
Accounts payable and accrued expenses	(1,094,939)
Resident contract liabilities	(80,467,851)
	$ 70,151,960

Note 4. Medicare Reimbursement System and Concentration

The Company provides care to patients in its skilled nursing wing under the Medicare program. Revenue from the Medicare program accounted for approximately 14% of total revenue for the period ended December 31, 2022. Medicare reimburses the Company under prospectively determined rates based on the level of care provided. These rates, which are not subject to retrospective adjustment, vary according to a patient classification system that is based on clinical, diagnostic and other factors. During the period ended December 31, 2022 the Company recorded revenues from Medicare of approximately $3,799,000. As of December 31, 2022, accounts receivable from Medicare totaled $540,143.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as accreditation, licensure, government healthcare program participation, reimbursement for patient services, and Medicare fraud and abuse. As a result, there is ongoing government activity focused on identifying possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future review and interpretation, as well as regulatory actions unknown or unasserted at this time. Laws and regulations governing the Medicare program are complex and subject to interpretation.

Note 5. Restricted Cash

Amounts of restricted cash as of December 31 are set aside for the following purposes:

	2022
Debt service reserve	$ 5,706,250
Operating reserve	2,004,560
Real estate tax escrow	879,433
Waste-water replacement reserve	53,535
	$ 8,643,778

Note 6. Property, Plant and Equipment

A summary of property, plant and equipment at December 31 is as follows:

	2022
Land and improvements	$ 10,023,500
Buildings and improvements	89,528,042
Furniture, fixtures and equipment	2,155,359
Construction in progress	107,813
	101,814,714
Less accumulated depreciation	2,720,069
	$ 99,094,645

Note 7. Permanent Financing and Subsequent Event

In December 2021, the Company issued Series 2021 Bonds to finance the acquisition of the community and fund reserves in the amount of $91,300,000. The bonds bore interest at an interest rate of 6.25% and had an original maturity date of December 22, 2022. Interest payments were due monthly with the principal balance due at maturity. In December 2022, the Company amended the bond agreement to extend the maturity date to September 1, 2023. On April 5, 2023, the Company issued Series 2023 Bonds with total proceeds of $95,650,000. The proceeds of the Series 2023 Bonds were used to repay in full the 2021 Bonds and to fund various reserves required by the bonds. The Series 2023 Bonds were issued with interest rates ranging from 6.0% to 7.5% and a maturity date in April 2030. The bonds are subject to customary restrictive covenants and are collateralized by substantially all assets of the Company.

As of December 31, 2022, the 2021 Series bond payable totaled $91,300,000.

Note 8. Management agreement

The Company has a management agreement with Benchmark Senior Living LLC (BSL) for management and administrative services in relation to the independent living facility and the health care facility for which the Company pays BSL a fee of 5% of Gross Operating Revenues, as defined in the agreement and 5% of Net Entrance Fees. Management fee expense was approximately $1,681,000 for the period ended December 31, 2022.

BSL employs all employees of the Community and is reimbursed by the Company for actual payroll costs, which include salaries, wages, employer taxes and other employer paid benefits. Amounts incurred for the period ended December 31, 2022 under this agreement was $13,976,328. Capitalized commissions of $96,500 as of December 31, 2022 are being amortized over the estimated average life expectancy of the residents and are recorded in prepaid expenses and other in the accompanying combined balance sheet.

The Company reimburses BSL for 401k plan expense related to the Community's employees. Amounts reimbursed to BSL for the period ended December 31, 2022, under this agreement totaled $115,895, which is included in salaries, wages and benefits on the statement of operations.

Note 9. Commitments and Contingencies

The Company is exposed to the risk of investigation, lawsuits and claims in the normal course of business. Management has evaluated all current activities and actions and believes they would not materially affect the financial position or results of operations.