

FIRST HARTFORD CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

APRIL 30, 2019 AND 2018

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of First Hartford Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Hartford Corporation and Subsidiaries (the Company) as of April 30, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity (deficiency), and cash flows for each of the years in the two-year period ended April 30, 2019, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of April 30, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended April 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the auditing standards of the PCAOB and 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 of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Mahoney Sabol + Company, LLP

Glastonbury, Connecticut
July 31, 2019

We have served as the Company's auditor since 2013.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
APRIL 30, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u> <u>(As Adjusted)</u>
Real estate and equipment:		
Developed properties and property under construction (including \$80,474,006 in 2019 and \$79,969,791 in 2018 for VIEs)	\$262,564,890	\$251,892,715
Equipment and tenant improvements (including \$2,600,840 in 2019 and \$2,551,778 in 2018 for VIEs)	<u>4,699,333</u>	<u>4,274,824</u>
	267,264,223	256,167,539
Less accumulated depreciation and amortization (including \$20,238,251 in 2019 and \$18,042,184 in 2018 for VIEs)	<u>(57,966,719)</u>	<u>(52,650,839)</u>
	209,297,504	203,516,700
Property held for sale	6,896,115	7,465,163
Cash and cash equivalents (including \$2,724,354 in 2019 and \$2,689,207 in 2018 for VIEs)	6,470,262	7,206,445
Cash and cash equivalents – restricted (including \$404,269 in 2019 and \$386,505 in 2018 for VIEs)	636,231	992,923
Marketable securities (including \$696,390 in 2019 and \$619,432 in 2018 for VIEs)	696,390	619,432
Accounts and notes receivable, net (including \$99,588 in 2019 and \$49,668 in 2018 for VIEs)	2,312,623	3,041,624
Other receivables	2,451,265	4,494,150
Deposits and escrow accounts (including \$6,488,214 in 2019 and \$7,356,807 in 2018 for VIEs)	13,469,322	15,284,884
Prepaid expenses (including \$406,546 in 2019 and \$361,206 in 2018 for VIEs)	1,876,297	1,726,281
Deferred expenses, net (including \$133,551 in 2019 and \$150,412 in 2018 for VIEs)	3,952,349	3,242,200
Investment in affiliates	429,847	429,847
Due from related parties and affiliates	<u>204,257</u>	<u>199,101</u>
Total assets	<u>\$248,692,462</u>	<u>\$248,218,750</u>

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
APRIL 30, 2019 AND 2018
(Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)

	<u>2019</u>	<u>2018</u> <u>(As Adjusted)</u>
Liabilities:		
Mortgages and other notes payable:		
Construction loans payable	\$36,246,499	\$32,168,786
Mortgages payable (including \$62,806,632 in 2019 and \$63,617,980 in 2018 for VIEs)	183,931,827	191,597,383
Notes payable (including \$1,704,697 in 2019 and \$1,704,697 in 2018 for VIEs)	1,704,697	1,704,697
Lines of credit	6,750,000	4,760,000
Less: Deferred debt issuance costs (including \$1,468,871 in 2019 and \$1,515,252 in 2018 for VIEs)	<u>(2,927,321)</u>	<u>(2,975,038)</u>
	225,705,702	227,255,828
Accounts payable (including \$437,572 in 2019 and \$1,017,870 in 2018 for VIEs)	5,541,804	3,295,223
Other payables	4,383,410	6,556,675
Accrued liabilities (including \$3,708,078 in 2019 and \$3,557,776 in 2018 for VIEs)	7,354,956	7,456,930
Derivative liability	1,440,606	659,780
Deferred income (including \$214,655 in 2019 and \$221,296 in 2018 for VIEs)	1,097,189	1,235,635
Other liabilities	615,642	1,007,642
Due to related parties and affiliates (including \$507,428 in 2019 and \$464,608 in 2018 for VIEs)	556,629	616,516
Deferred tax liability	<u>1,428,531</u>	<u>210,215</u>
Total liabilities	<u>248,124,469</u>	<u>248,294,444</u>
Commitments and Contingencies		
Shareholders' Equity (Deficiency):		
First Hartford Corporation		
Preferred stock, \$1 par value; \$.50 cumulative and convertible; authorized 4,000,000 shares; no shares outstanding	-0-	-0-
Common stock, \$1 par value; authorized 6,000,000 shares: issued 3,210,808 in 2019 and 3,211,843 in 2018, outstanding 2,314,564 and 2,315,799 in 2019 and 2018, respectively	3,210,808	3,211,843
Capital in excess of par	5,042,226	5,043,779
Accumulated deficit	(1,610,303)	(4,166,755)
Accumulated other comprehensive income	-0-	-0-
Treasury stock, at cost, 896,244 and 896,044 shares in 2019 and 2018	<u>(4,989,794)</u>	<u>(4,989,384)</u>
Total First Hartford Corporation	1,652,937	(900,517)
Noncontrolling interests	<u>(1,084,944)</u>	<u>824,823</u>
Total shareholders' equity (deficiency)	<u>567,993</u>	<u>(75,694)</u>
Total liabilities and shareholders' equity (deficiency)	<u>\$248,692,462</u>	<u>\$248,218,750</u>

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u> (As Adjusted)
Revenues:		
Rental income	\$30,378,070	\$31,419,431
Service income	12,889,893	4,842,144
Sales of real estate	31,997,373	40,424,504
Other revenues	<u>5,482,441</u>	<u>5,982,883</u>
	<u>80,747,777</u>	<u>82,668,962</u>
Operating costs and expenses:		
Rental expenses (includes depreciation and amortization of \$6,080,036 and \$5,719,173 in 2019 and 2018, respectively)	21,682,822	20,954,278
Service expenses	11,435,071	5,341,070
Cost of real estate sales	21,940,942	32,454,414
Other expenses	6,410,596	6,777,589
Selling, general and administrative expenses	<u>5,902,992</u>	<u>5,690,128</u>
	<u>67,372,423</u>	<u>71,217,479</u>
Income from operations	<u>13,375,354</u>	<u>11,451,483</u>
Non-operating income (expense):		
Equity in earnings of unconsolidated subsidiaries	751,999	681,267
Other income	77,223	148,919
Gain (loss) on derivatives	(780,826)	1,531,013
Loss on impairment	-0-	(40,000)
Interest expense	<u>(10,640,815)</u>	<u>(10,816,099)</u>
	<u>(10,592,419)</u>	<u>(8,494,900)</u>
Income before income taxes	2,782,935	2,956,583
Income tax expense	<u>1,329,208</u>	<u>1,213,479</u>
Consolidated net income	1,453,727	1,743,104
Net (income) loss attributable to noncontrolling interests	<u>1,102,725</u>	<u>(297,596)</u>
Net income attributable to First Hartford Corporation	<u>\$2,556,452</u>	<u>\$1,445,508</u>
Net income per share – basic	<u>\$1.10</u>	<u>\$0.62</u>
Net income per share – diluted	<u>\$1.10</u>	<u>\$0.62</u>
Shares used in basic per share computation	<u>2,315,472</u>	<u>2,320,799</u>
Shares used in diluted per share computation	<u>2,315,472</u>	<u>2,320,799</u>

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u> <u>(As Adjusted)</u>
Consolidated net income	\$1,453,727	\$1,743,104
Other comprehensive income (loss), net of taxes:		
Unrealized gains (losses) on marketable securities	<u>(166,896)</u>	<u>150,153</u>
Total comprehensive income	<u>1,286,831</u>	<u>1,893,257</u>
Amounts attributable to noncontrolling interests:		
Net (income) loss	1,102,725	(297,596)
Unrealized (gains) losses on marketable securities	<u>166,896</u>	<u>(150,153)</u>
	<u>1,269,621</u>	<u>(447,749)</u>
Comprehensive income attributable to First Hartford Corporation	<u>\$2,556,452</u>	<u>\$1,445,508</u>

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

	Common Stock	Capital in Excess of Par	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total First Hartford Corporation	Noncontrolling Interests	Total
Balance, April 30, 2017	\$3,236,843	\$5,093,779	\$(5,612,263)	\$-0-	\$(4,989,384)	\$(2,271,025)	\$878,451	\$(1,392,574)
Distributions	-0-	-0-	-0-	-0-	-0-	-0-	(501,377)	(501,377)
Purchase of common stock	(25,000)	(50,000)	-0-	-0-	-0-	(75,000)	-0-	(75,000)
Net income (As Adjusted)	-0-	-0-	1,445,508	-0-	-0-	1,445,508	297,596	1,743,104
Unrealized gain on marketable securities	-0-	-0-	-0-	-0-	-0-	-0-	150,153	150,153
Balance, April 30, 2018 (As Adjusted)	3,211,843	5,043,779	(4,166,755)	-0-	(4,989,384)	(900,517)	824,823	(75,694)
Distributions	-0-	-0-	-0-	-0-	-0-	-0-	(640,146)	(640,146)
Purchase of common stock	(1,035)	(1,553)	-0-	-0-	(410)	(2,998)	-0-	(2,998)
Net income (loss)	-0-	-0-	2,556,452	-0-	-0-	2,556,452	(1,102,725)	1,453,727
Unrealized loss on marketable securities	-0-	-0-	-0-	-0-	-0-	-0-	(166,896)	(166,896)
Balance, April 30, 2019	<u>\$3,210,808</u>	<u>\$5,042,226</u>	<u>\$(1,610,303)</u>	<u>\$ -0-</u>	<u>\$(4,989,794)</u>	<u>\$1,652,937</u>	<u>\$(1,084,944)</u>	<u>\$567,993</u>

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u> <u>(As Adjusted)</u>
Operating activities:		
Consolidated net income	\$1,453,727	\$1,743,104
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Equity in earnings of unconsolidated subsidiaries, net of distributions of \$360,000 in 2019 and \$360,000 in 2018	(392,000)	(321,267)
Gain on sale of real estate	(10,056,431)	(7,970,090)
Loss on impairment	-0-	40,000
Depreciation of real estate and equipment	5,885,847	5,486,495
Amortization of deferred expenses	593,750	566,069
Deferred income taxes	1,218,316	881,362
Unrealized (gain) loss on derivatives	780,826	(1,364,013)
Changes in operating assets and liabilities:		
Accounts, notes and other receivables	2,771,886	34,643
Deposits and escrows	1,815,562	767,035
Prepaid expenses	(150,016)	(81,961)
Deferred expenses	(1,256,182)	1,996,338
Accrued liabilities	(101,974)	1,757,055
Deferred income	(138,446)	613,174
Accounts and other payables	<u>73,316</u>	<u>1,970,252</u>
Net cash provided by operating activities	<u>2,498,181</u>	<u>6,118,196</u>
Investing activities:		
Investments in marketable securities	(243,854)	(232,114)
Proceeds from sale of marketable securities	-0-	1,301,674
Purchases of equipment and tenant improvements	(994,476)	(976,168)
Investments in affiliated companies	-0-	(429,747)
Proceeds from sales of real estate	31,997,373	40,424,504
Additions to developed properties and property under construction	<u>(32,044,069)</u>	<u>(43,491,020)</u>
Net cash (used in) investing activities	<u>(1,285,026)</u>	<u>(3,402,871)</u>

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018
(Continued)

	<u>2019</u>	<u>2018</u> (As Adjusted)
Financing activities:		
Purchase of common stock	\$(2,998)	\$(75,000)
Distributions to noncontrolling interests	(640,146)	(501,377)
Proceeds from:		
Construction loans	19,574,675	23,242,195
Mortgages	-0-	7,526,407
Credit lines	8,750,000	5,360,000
Principal payments on:		
Construction loans	(15,496,962)	(12,435,273)
Mortgages	(7,665,556)	(17,381,026)
Credit lines	(6,760,000)	(7,000,000)
Advances to related parties and affiliates, net	<u>(65,043)</u>	<u>(28,652)</u>
Net cash (used in) financing activities	<u>(2,306,030)</u>	<u>(1,292,726)</u>
Net change in cash and cash equivalents and restricted cash	(1,092,875)	1,422,599
Cash and cash equivalents and restricted cash, beginning of year	8,199,368	6,776,769
Cash and cash equivalents and restricted cash, end of year	<u>\$7,106,493</u>	<u>\$8,199,368</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$10,501,900	\$10,602,132
Cash paid during the year for income taxes	\$120,420	\$259,166
Debt refinancing during the year:		
New mortgage loan	\$-0-	\$8,565,000
Debt reduced	(0)	(5,567,673)
Escrow funded	<u>(0)</u>	<u>(120,920)</u>
Net cash from refinancing	<u>\$-0-</u>	<u>\$2,876,407</u>

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies:

Description of Business

First Hartford Corporation (the Company) was incorporated in Maine in 1909 and is engaged in the purchase, development, ownership, management and sale of real estate, all of which is considered the “Real Estate Operation” segment. The Company has a second segment “Fee for Service” in which the Company is engaged as a preferred developer for CVS and Cumberland Farms (see Revenue Recognition below).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and all other entities in which the Company has a controlling financial interest. The latter includes those in which the Company has been determined to be the primary beneficiary of a variable interest entity or otherwise meets certain criteria as a sole general partner or managing member in accordance with the consolidation guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. As such, included in the consolidated financial statements are the accounts of Rockland Place Apartments Limited Partnership and Clarendon Hill Somerville Limited Partnership. The Company’s ownership percentage in these variable interest entity partnerships is nominal. All intercompany balances and transactions have been eliminated in consolidation.

Estimates

The preparation of consolidated 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, the disclosure of contingent assets and liabilities as of 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.

Financial Statement Presentation

Because the Company is engaged in the development and sale of real estate at various stages of construction, the operating cycle may extend beyond one year. Accordingly, following the usual practice of the real estate industry, the accompanying consolidated balance sheets are unclassified.

Statements of Cash Flows

For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

The Company accounts for revenue in accordance with Accounting Standards Codification (ASC) Topic 606, “Revenue from Contracts with Customers” (Topic 606). The Company adopted new revenue recognition guidance on May 1, 2018, using the full retrospective method (see New Accounting Pronouncements below). Revenue is recognized when or as control of the promised services or goods is transferred to our customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

The following is a description of the Company’s revenue recognition policies, updated for the effects of Topic 606, for the Company’s principal activities, separated by our reportable segments as discussed further within Note 11.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued):

Revenue Recognition (concluded):

Real Estate Operations Segment:

Rental Income – Rental income is recognized on a straight-line basis over the terms of the respective leases and consists of base rent and reimbursements for certain costs such as real estate taxes, utilities, insurance, common maintenance and other recoverable costs as provided in the lease agreements. There are no contingent rents. If conditions of rent are not met, certain tenants may have rights to pay percentage rent not to exceed stated rent. Currently, there are a very limited number of tenants on percentage rent.

Management Services – The Company provides management and maintenance services to third parties, primarily the Company's unconsolidated Claymont, DE and Bronx, NY properties. The Company is compensated for such services through a monthly management fee earned based on a specified percentage of the monthly rental income generated from the property under management. Property management services represent a series of distinct daily services rendered over time.

Sales of Real Estate – The Company recognizes sales of real estate as revenue at a point in time when control is transferred and the Company has satisfied its performance obligation. For the years ended April 30, 2019 and 2018, the Company had real estate sales totaling \$31,997,373 and \$40,424,504, respectively. The cost of the property sold was \$21,940,942 and \$32,454,414 for 2019 and 2018, respectively. None of the property sold was otherwise providing significant ongoing cash flows to the Company.

Development Services – The Company typically satisfies its performance obligation as services are rendered over time, measured by the ratio of costs incurred up to a given date to estimated total costs for each contract. This cost to cost measure is used because management considers it to be the best available measure of progress on these contracts.

Construction Income – Construction revenues are recognized as performance obligations are satisfied over time (formerly known as the percentage-of-completion method), measured by the ratio of costs incurred up to a given date to estimated total costs for each contract. This cost to cost measure is used because management considers it to be the best available measure of progress on these contracts.

Other Revenues – Other revenues represents retail sales at the Company's three retail establishments it owns at its shopping centers. The Company recognizes these revenues at a point in time when control of the goods is transferred to its customers.

Fee for Service Segment:

Preferred Developer Services – The Company is party to preferred developer agreements with CVS and Cumberland Farms. Under these agreements, the Company satisfies its performance obligation over time as services are provided. Fees are typically payable upon contractually defined events, like project milestones. Fees and reimbursable expenses related to the development of pharmacy stores for CVS during the years ended April 30, 2019 and 2018 were \$2,079,250 and \$2,695,000, respectively. Fees and reimbursable expenses earned for Cumberland Farms during the years ended April 30, 2019 and 2018 were \$545,000 and \$1,240,000, respectively. These fees are included in service income in the consolidated statements of income.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued):

Accounts Receivable and Allowance for Doubtful Accounts

The Company records accounts receivable for its unconditional rights to consideration arising from its performance under contracts with customers. The carrying value of such receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The Company estimates its allowance for doubtful accounts for specific accounts receivable balances based on historical collection trends, the age of outstanding accounts receivables, and existing economic conditions associated with the receivables. The allowance for doubtful accounts totaled \$26,134 and \$56,930 as of April 30, 2019 and 2018, respectively. Past-due accounts receivable balances are written off when all internal collection efforts have been unsuccessful. As a practical expedient, the Company does not adjust the promised amount of consideration for the effects of a significant financing component when it expects, at contract inception, that the period between the transfer of a promised service to a customer and when the customer pays for that service will be one year or less. The Company does not typically include extended payment terms in its contracts with customers.

Remaining Performance Obligations

Remaining performance obligations represent the aggregate transaction prices for contracts where the Company's performance obligations have not yet been satisfied. On April 30, 2019, the Company had \$204,606 of remaining performance obligations relating to construction projects. The Company expects to recognize 100% of its remaining performance obligation as revenue during fiscal 2020.

Contract Assets and Contract Liabilities

Contract assets represent assets for revenue that has been recognized in advance of billing the customer and for which the right to bill is contingent upon something other than the passage of time. Included in contract assets are costs and estimated earnings in excess of billings, uninstalled materials, and other costs related to long-term construction contracts.

When the Company receives consideration, or such consideration is unconditionally due, from a customer prior to transferring services to the customer under the terms of the services contract, the Company records a contract liability. Included in contract liabilities are billings in excess of costs and estimated earnings and deferred revenue. Such deferred revenue typically results from milestone payments pertaining to future services not yet rendered. The Company recognizes the contract liability as revenue once it has transferred control of service to the customer and all revenue recognition criteria are met.

Contract assets and contract liabilities are determined for each contract on a net basis. As of April 30, 2019 and 2018, contract assets of \$36,296 and \$0, respectively, are included in accounts and notes receivable in the accompanying consolidated balance sheets and contract liabilities totaling \$350,000 as of April 30, 2019 and 2018 are included in deferred income in the accompanying consolidated balance sheets. The remaining balance of deferred income consists of prepayments of monthly rent.

Contract Costs

Contract costs include all direct material, direct labor and benefits, materials unique to or installed in the project, subcontract costs and allocations of indirect construction costs. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued):

Contract Costs (continued)

As long-term contracts extend over one or more years, revisions in estimates of costs and earnings during the course of the contract are reflected in the accounting period in which the facts, which require the revision, become known. Applying the contract cost practical expedient, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that it otherwise would have recognized is one year or less.

Other Receivables and Payables

Pursuant to the Company's Preferred Developer Agreement with CVS, the Company is obligated to fund allowable costs incurred in connection with the identification and development of new retail pharmacy stores for which it receives direct reimbursements from CVS. Payables for allowable costs incurred in connection with these activities but not yet funded were \$2,550,345 and \$5,004,438 as of April 30, 2019 and 2018 respectively, and have been included as "other payables" in the consolidated balance sheets. Related reimbursements due from CVS were \$2,451,265 and \$4,494,150 as of April 30, 2019 and 2018, respectively, and have been included in "other receivables" in the consolidated balance sheets.

Also included in "other payables" as of April 30, 2019 and 2018 were \$1,700,562 and \$1,208,263, respectively, of cost reimbursements due upon completion of two projects.

Cash and Cash Equivalents – Restricted

Cash and cash equivalents – restricted, includes funds received from CVS in connection with the Company's Preferred Developer Agreement. Such amounts are to be used for the payment of costs incurred by the Company for the development and construction of CVS retail pharmacy stores. The restricted cash also includes Tenant Security Deposits held by the VIEs.

Developed Properties, Equipment and Tenant Improvements

Developed properties, equipment and tenant improvements are recorded at cost.

Depreciation and amortization are provided using the straight-line method based on the following estimated useful lives.

<u>Description</u>	<u>Years</u>
Developed properties	15 – 40
Equipment	3 – 10
Tenant improvements	Lesser of improvement life or lease term

Expenditures for major renewals and betterments, which extend the useful lives of developed properties, equipment and tenant improvements, are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred.

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018**

1. Summary of Significant Accounting Policies (continued):

Property Under Construction

The Company capitalizes costs directly associated with property under construction. Such costs include materials, construction labor and payroll cost, allocation of salaries and payroll cost from direct activities such as engineering, purchasing and legal and services provided by subcontractors. Material carrying costs for property taxes, insurance and interest are also capitalized during the period of active construction until construction is substantially complete (see Note 3).

The Company capitalizes labor cost for direct work by offsite staff on specific projects. In the year ended April 30, 2019, \$140,961 was capitalized. In the year ended April 30, 2018, \$243,853 was capitalized.

Property Held for Sale

The Company classifies property as “held for sale” if management commits to sell the property and actively markets the property to potential buyers at fair market value, the property is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property, and the sale is probable within one year.

Deferred Expenses

Expenditures directly related to real estate under consideration for development are deferred and included in deferred expenses in the consolidated balance sheets. These costs include option payments, attorney’s fees, architect and engineering fees, consultants, etc., but only to the extent they are from outside sources. If development of the real estate commences, all of the accumulated costs are reclassified to property under construction in the consolidated balance sheets. If the project is later abandoned, all of the accumulated costs are charged to expense.

Leasing costs incurred, primarily commissions, are capitalized for signed leases and included in deferred expenses in the accompanying consolidated balance sheets. Such costs are amortized using the straight-line method over the terms of the related leases. The unamortized balance of such cost was \$1,288,540 and \$1,242,645 as of April 30, 2019 and 2018, respectively.

Amortization expense for the next five years and thereafter is expected to be as follows:

	<u>Year Ending April 30,</u>
2020	\$177,827
2021	160,757
2022	150,094
2023	133,028
2024	104,101
Thereafter	<u>562,733</u>
Total	<u>\$1,288,540</u>

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued):

Investment in Affiliated Entities

The Company has an investment in an affiliated limited liability entity Dover Parkade, LLC, (“Dover”). The Company has a 50% interest in Dover which owns a shopping center in Dover Township, NJ. The operating and financial policies of Dover are not controlled by the Company. For years prior to May 1, 2009, the Company was committed to provide funding to this equity method investee. The Company’s investment was recorded at cost and subsequently adjusted for its share of their net income and losses and distributions. Through April 30, 2009, losses and distributions from Dover exceeded the Company’s investment and the Company’s investment balance was reduced below \$0 and recorded as a liability. Beginning May 1, 2009, distributions from Dover have been credited to income and any additional losses have not been allowed to further reduce the investment balance. The resulting carrying value of this investment of (\$615,642) as of April 30, 2019 and (\$1,007,642) as of April 30, 2018 is included in other liabilities. The Company recorded equity in earnings of unconsolidated subsidiaries of \$751,999 and \$681,267 for the years ended April 30, 2019 and 2018, respectively, which includes distributions of \$360,000 in each year.

On October 4, 2011, the Company entered into a partnership with a nonprofit entity which purchased a 99 year leasehold interest in a 208 unit subsidized housing project in Claymont, Delaware. The Company is a non-controlling .01% limited partner in the entity. The Company’s investment is carried at cost of \$100. A subsidiary of the Company is the managing agent.

In August 2017, the Company finalized an agreement to invest in an affiliated limited liability company called Ware Seguin 1518, LLC. The Company accounts for its 50% interest in Ware Seguin 1518, LLC under the equity method of accounting. Ware Seguin 1518, LLC owns property in Schertz, TX that it plans to develop for approximately 285 single family residential lots and approximately 15 acres of commercial or other uses. The operating and financial policies of Ware Seguin 1518, LLC are not controlled by the Company. The Company’s initial investment was \$326,498 and the Company committed to invest an additional amount up to \$500,000, of which an additional \$103,149 was made as of April 30, 2019. Additional future investments may be required if agreed by the Members. The Company is also a guarantor of 50% of a \$1,000,000 bank loan obtained by Ware Seguin 1518, LLC that was used to purchase the property. There has been no income statement activity as of April 30, 2019 and 2018.

On April 19, 2018, a 75%-owned subsidiary of the Company invested in a limited liability company that purchased a 100 unit subsidized housing property in the Bronx, NY for \$14,900,000. The Company, through this investment, is a non-controlling .005% Class B member in the limited liability company. The Company’s investment is carried at cost of \$100. The managing member has delegated the management of the property to the Company, for which it is being paid a management fee of 4% of operating revenue. The Company, through a wholly-owned subsidiary, was the general contractor for the renovation of this property, which cost approximately \$9,458,000. Finally, a developer fee of \$3,669,000 will be paid to the 75%-owned subsidiary of the Company. The first installment of this developer fee (\$350,000) was paid upon closing; the second and third installments of this developer fee (\$848,877) will be paid after conversion to permanent financing; and the balance of the developer fee (\$2,470,123) will be paid over the next 15 years contingent upon sufficient net cash flows of the property.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued):

Fair Value Measurements

Certain assets and liabilities are presented at fair value on a recurring basis. In addition, fair values are disclosed for certain other assets and liabilities. In all cases, fair value is determined using valuation techniques based on a hierarchy of inputs. A summary of the hierarchy follows:

- Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant observable inputs are available, either directly or indirectly such as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 – Prices or valuations that require inputs that are unobservable.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The Company's financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable, accrued expenses and debt. The fair values of accounts receivable, accounts payable and accrued expenses are estimated to approximate their carrying amounts because of their relative short-term nature. In general, the carrying amount of variable rate debt approximates its fair value. Further, the carrying amount of fixed rate debt approximates fair value debt since the interest rates on the debt approximates the Company's current incremental borrowing rate. Information about the fair values of marketable securities and derivative liabilities is presented below.

Level 1

Marketable Securities – Common and Preferred Stocks

The Company determines the appropriate classifications of its investments in marketable debt and equity securities at the time of purchase and re-evaluates such determinations at each balance sheet date. As of April 30, 2019 and 2018, investments consist of equity securities, which are classified as available for sale. Investments in marketable securities are stated at fair value of \$696,390 and \$619,432 as of April 30, 2019 and 2018 (cost of \$745,642 and \$501,787). Fair value for marketable securities is based on the last sale of the period obtained from recognized stock exchanges (i.e. Level 1). Net unrealized holding gains and temporary losses on equity securities are included as a separate component of the deficiency. Net unrealized gains (losses) of \$(166,896) and \$150,153 are included in noncontrolling interests for the years ended April 30, 2019 and 2018, respectively. Gains or losses on securities sold are based on the specific identification method.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued):

Fair Value Measurements (concluded):

Level 2

Derivative Instruments

The Company, through its 50% owned consolidated subsidiaries, has entered into two separate floating-to-fixed interest rate swap agreements with banks that expire in May 2025 and July 2031. The Company has determined that these derivative instruments do not meet the requirements of hedge accounting and have therefore recorded the change in fair value of these derivative instruments through income in the consolidated statement of operations. The gain (loss) on derivatives incurred during the years ended April 30, 2019 and 2018 totaled \$(780,826) and \$1,531,013, respectively, and the Company has recorded a liability of \$1,440,606 and \$659,780 in the consolidated balance sheets, which represents the fair value of the interest rate swaps as of April 30, 2019 and 2018, respectively.

The following table presents information about the Company's respective assets and liabilities measured at fair value on a recurring basis at April 30, 2019 and 2018, including the fair value measurements and the level of inputs used in determining those fair values:

April 30, 2019	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
U.S. Equity Securities	<u>\$696,390</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$696,390</u>
Liabilities:				
Interest Rate Swap Agreement	<u>\$ -0-</u>	<u>\$(1,440,606)</u>	<u>\$ -0-</u>	<u>\$(1,440,606)</u>
 April 30, 2018	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Assets:				
U.S. Equity Securities	\$619,432	\$ -0-	\$ -0-	\$619,432
Interest Rate Swap Agreement	<u>\$ -0-</u>	<u>\$625,841</u>	<u>\$ -0-</u>	<u>\$625,841</u>
	<u>\$619,432</u>	<u>\$625,841</u>	<u>\$ -0-</u>	<u>\$1,245,273</u>
Liabilities:				
Interest Rate Swap Agreement	<u>\$ -0-</u>	<u>\$(1,285,621)</u>	<u>\$ -0-</u>	<u>\$(1,285,621)</u>

The Company recognizes transfers between levels within the hierarchy as of the beginning of the reporting period. There have been no significant transfers between levels within the hierarchy for the years ended April 30, 2019 and 2018.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount might not be recovered.

Earnings (loss) per share (EPS)

Basic earnings (loss) per share amounts are determined using the weighted-average outstanding common shares for the year. Diluted earnings (loss) per share amounts include the weighted-average outstanding common shares as well as potentially dilutive common stock options and warrants using the "treasury stock" method. There were no options outstanding at April 30, 2019 or April 30, 2018.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued):

Income Taxes

Deferred income taxes are provided on the differences between the financial statement and income tax bases of assets and liabilities and on net operating loss carryforwards using the enacted tax rates.

A valuation allowance is provided for deferred income tax assets for which realization is not likely in the near term.

As of April 30, 2019 and 2018, the Company had no significant uncertain income tax positions. The Company recognizes interest and penalties on any uncertain income tax positions as a component of income tax expense. During the years ended April 30, 2019 and 2018, the Company did not recognize any interest or penalties related to unrecognized tax benefits.

On October 26, 2017, the Company was informed that its fiscal year 2016 Federal tax return was selected for examination. On May 23, 2019, the Company was informed that the audit had concluded with no significant findings.

The statute of limitations is three years unless there is fraud or substantial understatement of income. Therefore, tax returns beginning with fiscal year 2017 are open to examination by Federal, local and state authorities.

New Accounting Pronouncements

The FASB previously issued five ASUs related to revenue recognition (“new revenue recognition guidance”). The ASUs issued were: (1) in May 2014, ASU 2014-09, “Revenue from Contracts with Customers (Topic 606);” (2) in March 2016, ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net);” (3) in April 2016, ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing;” (4) in May 2016, ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-scope Improvements and Practical Expedients;” and (5) in December 2016, ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue From Contracts with Customers.” As mentioned above, the Company adopted the new revenue recognition guidance in the first quarter of fiscal 2019 using the full retrospective transition method. This resulted in a cumulative adjustment of \$129,097 to the accumulated deficit balance reflected in the accompanying consolidated balance sheet at April 30, 2018, which represents the impact from restating the statement of operations for the year ended April 30, 2018. There was no impact on the Company’s consolidated balance sheet as of April 30, 2017. The impact of the application of the new revenue recognition guidance resulted in a deceleration of revenues and a corresponding deferral of project costs related to an agreement that did not meet the criteria for a contract under the scope of Topic 606. Under the new revenue guidance, because this agreement does not meet the criteria for a contract, revenue cannot be recognized until the Company has satisfied all performance obligations. In addition, the deceleration of these revenues and expenses resulted in an increase in total assets and liabilities to reflect contract assets and liabilities.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies (continued):

New Accounting Pronouncements (continued):

The following table presents the effects of the adoption of the new revenue recognition guidance on the Company's consolidated balance sheet as of April 30, 2018:

	<u>As</u> <u>Reported</u>	<u>Adoption of</u> <u>New</u> <u>Revenue</u> <u>Recognition</u> <u>Guidance</u>	<u>As</u> <u>Adjusted</u>
Deferred Expenses	\$3,064,329	\$177,871	\$3,242,200
Total Assets	248,040,879	177,871	248,218,750
Deferred Revenue	885,635	350,000	1,235,635
Total Liabilities	247,944,444	350,000	248,294,444
Accumulated Deficit	4,037,658	129,097	4,166,755
Noncontrolling Interests	867,855	(43,032)	824,823
Total Liabilities and Equity	\$248,040,879	\$177,871	\$248,218,750

The following table presents the effects of the adoption of the new revenue recognition guidance on the Company's consolidated statement of operations for the year ended April 30, 2018:

	<u>As</u> <u>Reported</u>	<u>Adoption of</u> <u>New</u> <u>Revenue</u> <u>Recognition</u> <u>Guidance</u>	<u>As</u> <u>Adjusted</u>
Service Income	\$5,192,144	\$(350,000)	\$4,842,144
Revenues	83,018,962	(350,000)	82,668,962
Selling, General and Administrative Expenses	5,867,999	(177,871)	5,690,128
Operating Costs and Expenses	71,395,350	(177,871)	71,217,479
Income from Operations	11,623,612	(172,129)	11,451,483
Income Before Income Taxes	3,128,712	(172,129)	2,956,583
Consolidated Net Income	1,915,233	(172,129)	1,743,104
Net (Income) Attributable to Noncontrolling Interests	(340,628)	43,032	(297,596)
Net Income Attributable to FHC	\$1,574,605	\$(129,097)	\$1,445,508
Net Income Per Share	\$0.68	\$(0.06)	\$0.62

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This ASU addressed eight specific cash flow issues with the objective of reducing the existing diversity in practice. The Company adopted ASU 2016-15 in the first quarter of fiscal 2019.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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1. Summary of Significant Accounting Policies (concluded):

New Accounting Pronouncements (concluded):

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. The Company adopted ASU 2016-18 in the first quarter of fiscal 2019 and, as a result, restricted cash has been included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases, (Topic 842), which is intended to improve financial reporting around leasing transactions. The ASU affects all companies and other organizations that engage in lease transactions (both lessee and lessor) that lease assets such as real estate and manufacturing equipment. This ASU will require organizations that lease assets—referred to as “leases”—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the potential impact of adopting this ASU on its consolidated financial statements.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. Consolidated Variable Interest Entities

The Company's consolidated financial statements include the accounts of Rockland Place Apartments Limited Partnership ("Rockland"), Clarendon Hill Somerville Limited Partnership ("Clarendon") and Trolley Barn Associates, LLC ("Trolley Barn"). The Company has consolidated Rockland, Clarendon and Trolley Barn based on the express legal rights and obligations provided to it by the underlying partnership agreements and its control of their business activity.

Connolly and Partners, LLC (75% owned by the Company) has a .01% ownership interest in and is a general partner of Rockland. Connolly and Partners, LLC also owns 49% of Clarendon Hill Somerville, LLC which owns .01% of and is the general partner of Clarendon. Trolley Barn is 50% owned by the Company.

Rockland owns and operates a rental housing project consisting of 204 units located in Rockland, Massachusetts. Clarendon owns and operates a 501 unit apartment complex in Somerville, Massachusetts. Both projects were renovated and are managed by the Company. Renovation costs were financed with loans from MHFA, subsidies from U.S. Department of Housing and Urban Development (HUD) and limited partner capital contributions.

Each building of the projects qualifies for low-income housing credits pursuant to Internal Revenue Code Section 42 ("Section 42"), which regulates the use of the projects as to occupant eligibility and unit gross rent, among other requirements. Each building of the projects must meet the provisions of these regulations during each of fifteen consecutive years in order to remain qualified to receive the credits. In addition, Rockland and Clarendon have executed an Extended Low-Income Housing Agreement, which requires the utilization of each project pursuant to Section 42 through the compliance period, even if Rockland or Clarendon disposes of the project.

Each project's low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may result in an adjustment to the capital contributed by the investment limited partner.

Rockland has an agreement with the Rockland Housing Authority whereby the Housing Authority has the option to purchase the property, after the 15-year tax credit compliant period on January 1, 2024, from Rockland. The option price is based on a specified formula in the agreement.

Clarendon has an agreement with the 51% owner of Clarendon Hill Somerville, LLC, Clarendon Hill Towers Tenant Association, LLC ("CHTTA"), whereby CHTTA has an option to purchase the property after the 15 year tax credit compliance period from the partnership. The option price is the greater of:

- a. Outstanding debt and taxes, or
- b. Fair market value of the property

The assets at April 30, 2019 and 2018 of the consolidated VIEs (Rockland and Clarendon) that can be used only to settle their obligations and the liabilities for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company are shown parenthetically in the line items of the consolidated balance sheets.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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2. Consolidated Variable Interest Entities (concluded):

A summary of the assets and liabilities of Rockland and Clarendon included in the Company's consolidated balance sheets as follows:

	April 30,	
	2019	2018
Real estate and equipment, net	\$65,762,591	\$66,691,049
Other assets	<u>10,947,635</u>	<u>11,607,936</u>
Total assets	76,710,226	78,298,985
Intercompany profit elimination	<u>(3,317,901)</u>	<u>(2,603,570)</u>
Consolidated	<u>\$73,392,325</u>	<u>\$75,695,415</u>
Mortgages and other notes payable	\$63,042,458	\$63,807,424
Other liabilities	<u>4,986,060</u>	<u>4,796,289</u>
Total liabilities	<u>\$68,028,518</u>	<u>\$68,603,713</u>

Substantially all assets of Rockland and Clarendon are pledged as collateral for its debt. The recourse of the holders of the mortgages and other notes payable is limited to the assets of Rockland and Clarendon. Combined revenues for Rockland and Clarendon were \$12,592,406 for the year ended April 30, 2019 and \$12,227,584 for the year ended April 30, 2018. The combined net loss for Rockland and Clarendon was \$941,499 for the year ended April 30, 2019 and \$1,447,093 for the year ended April 30, 2018. Since the Company's ownership interest in both entities is nominal, substantially all of such losses are allocated to the noncontrolling interests in the consolidated financial statements.

Trolley Barn's only asset is approximately seven acres of land in Cranston, RI with a carrying value of \$391,905.

3. Construction Loans, Mortgages, Notes Payable, and Lines of Credit:

Information about the Company's debt follows:

	<u>2019</u>	<u>2018</u>
Construction loans and mortgages payable with interest rates ranging from zero to 10.00% at April 30, 2019 and 2018 and maturities at various dates through 2056.	\$220,178,326	\$223,766,169
Notes payable with interest rates ranging from zero to 4.40% at April 30, 2019 and 2018 and maturities ranging from 2030 to 2050.	1,704,697	1,704,697
Lines of credit with interest rates ranging from 5.50% to 5.75% at April 30, 2019 and 2018 and maturities at various dates through 2020.	<u>6,750,000</u>	<u>4,760,000</u>
	228,633,023	230,230,866
Less deferred debt issuance costs	<u>(2,927,321)</u>	<u>(2,975,038)</u>
	<u>\$225,705,702</u>	<u>\$227,255,828</u>

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. Construction Loans, Mortgages, Notes Payable, and Lines of Credit (continued):

For the years ended April 30, 2019 and 2018, \$546,730 and \$480,332 of interest related to various development and construction projects was capitalized.

Aggregate principal payments due on the above debt for each of the years succeeding April 30, 2019 are as follows:

<u>Year Ending April 30,</u>	
2020	\$17,299,361
2021	10,813,494
2022	4,108,877
2023	10,071,292
2024	9,112,491
Thereafter	<u>177,227,508</u>
	<u>\$228,633,023</u>

Substantially all real estate owned is pledged as collateral for construction and mortgage loans.

Construction Loans:

Edinburg, TX – Construction Loan: On May 1, 2018, the Company obtained a \$3,233,937 construction loan to finance construction of a commercial building at its Edinburg, TX property. The initial construction draw was for \$2,818,156 with another \$415,781 available to draw as construction is completed. The net cash received by the Company at closing was \$455,737. Of the initial construction draw, \$2,310,000 was used to repay Protective Life against their remaining loan to release the lot the building is being constructed on. The interest rate on the loan is the Prime Rate per Wall Street Journal plus 1.25% with a floor of 6.00% and a ceiling of 9.00%. The monthly loan payments are interest only for the first twelve months then convert to monthly principal and interest payments calculated using a 20 year amortization period with a final balloon payment due on April 30, 2023. The Company is also a guarantor on this loan.

After the partial repayment noted above, the remaining balance of the loan with Protective Life is \$11,616,740 and is secured by vacant land of approximately 50 acres directly adjacent to the shopping center. The loan has a maturity date of January 1, 2034 with an interest rate of 5.0%. This remaining loan is personally guaranteed by the Chairman of the Company.

Katy, TX (Cane Island): On December 12, 2018, the Company obtained a construction loan on its property in Katy, TX (Cane Island). The construction loan totals \$4,800,000, of which \$1,570,569 was drawn at inception primarily to pay down one of the Company's lines of credit. Key terms of the construction loan are as follows:

Maximum Loan Amount:	\$4,800,000
Maturity Date:	December 12, 2022
Interest Rate:	2.50% plus One Month ICE LIBOR rate, as defined, through July 5, 2020 and 6.5% through the maturity date; 12.0% thereafter.
Payments:	Interest only payable monthly through July 5, 2020. Thereafter, principal and interest payable monthly using a 25-year amortization.
Guarantee:	The Company (Corporate).

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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3. Construction Loans, Mortgages, Notes Payable, and Lines of Credit (concluded):

Lines of Credit:

On July 30, 2015, the Company obtained a credit line with a regional bank. This line of credit, which was increased from \$2,760,000 to \$3,760,000 on December 27, 2018, is used from time to time primarily to fund initial investments related to development opportunities. The interest rate on these loans is 3.00% plus One Month ICE LIBOR rate up to maturity date (i.e., twelve months from issuance of proceeds) and 12.0% thereafter. As of April 30, 2019, the Company had borrowings of \$3,500,000 against this credit line.

On December 7, 2015, the Company entered into a \$2,000,000 revolving demand loan agreement (“line of credit”) with a regional bank. On June 11, 2018, this line of credit was increased to \$3,000,000 and the final payment date was set at September 30, 2020. The interest rate on this loan is Wall Street Journal Prime, with a floor of 3.25%. The loan is unsecured and there are no guarantors. Interest is to be paid monthly; principal is to be repaid within twelve months or on demand, at the bank’s discretion. There are no prepayment penalties. This line of credit is used from time to time primarily to fund initial investments related to development opportunities. As of April 30, 2019, the Company had borrowings of \$2,750,000 against this credit line.

On April 19, 2017, the Company entered into a \$2,000,000 unsecured line of credit with a regional bank. This line of credit was increased to \$4,000,000 on April 17, 2018. Terms of the line of credit are as follows:

Term:	3 years – matures 5/1/2020
Rate:	LIBOR + 3.25%
Fee:	0.50% (One Time)
Unused Fee:	0.25% annually on the unused line
Guarantee:	Full guarantee by the Chairman of the Company (Individual)
Deposits:	Must maintain a minimum of \$500,000 at bank
Other:	Each funding request to be at the sole discretion of the bank and only to acquire credit tenanted properties.
Clean Up:	Borrower to be out of debt once each year for at least 30 days.

As of April 30, 2019, the Company had borrowings of \$500,000 against this credit line.

4. Pledge of Stock in Subsidiaries:

For an extended period of time the Company was unable to obtain financing (secured or unsecured) without the personal guarantees of the Chairman of the Company. To some degree, the Company has recently been able to obtain financing without a guarantee, but generally guarantees continue to be a necessary component to some construction loans. In the past, the Company has provided pledges of the stock of its subsidiaries to the Chairman of the Company as protection from personal losses due to his guarantees. These pledges are expected to stay in place until the guarantees are eliminated.

The Chairman of the Company has guaranteed the following outstanding amounts at April 30, 2019:

Mortgage loan – Edinburg, TX	\$11,616,740
Mortgage loan – Manchester, CT (Company HQ)	\$188,203
Mortgage loan – Lubbock, TX	\$13,212,633
Land loan – Buda, TX	\$1,504,687
Land loan – Austin, TX	\$2,228,760
Line of credit – Regional bank	\$500,000

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4. Pledge of Stock in Subsidiaries (concluded):

In the event that the Chairman is called upon to pay on any of the above guarantees, the Company would become liable to him.

5. Related Party Transactions:

Included in amounts due from related parties and affiliates is \$-0- and \$196,404 at April 30, 2019 and 2018 from Project Hope Bronx, LLC relating to predevelopment costs. The Company, through a 75%-owned subsidiary, is a non-controlling .005% Class B member in this limited liability company.

Included in amounts due from related parties and affiliates is \$200,000 and \$-0- at April 30, 2019 and 2018 relating to funds provided to Studley Enterprises, Inc. by Cranston/BVT Associates, LP, a 50% owned subsidiary of the Company. Studley Enterprises is wholly-owned by the Managing Member of Cranston Brewery, LLC, which owns the other 50% of Cranston/BVT Associates, LP.

Included in amounts due to related parties and affiliates is \$554,938 and \$536,486 payable to Cranston Brewery LLC at April 30, 2019 and 2018, respectively. Cranston Brewery LLC is an affiliate but not owned by the Company. The amount due represents its funding of operations of Trolley Barn Associates (50%). The Company's advances to Trolley Barn Associates were eliminated in consolidation.

Included in amounts due to related parties and affiliates is \$-0- and \$80,000 payable to New Folly Brook Commons, LLC at April 30, 2019 and 2018, respectively. New Folly Brook Commons, LLC is owned by the Chairman of the Company. The amount due represents the remaining balance for condominiums sold by New Folly Brook Commons, LLC to a subsidiary of the Company.

6. Employee Retirement Plan:

The Company has a 401(k) Plan for its employees. Under this plan, all employees over 18 years of age, working at least 30 hours weekly are eligible to participate. Participants are eligible to defer earnings to the extent of IRS regulations. The Company matches up to 4% of each participating employee's annual salary. Pension expense was \$173,400 and \$180,107 for the years ended April 30, 2019 and 2018, respectively.

7. Income Taxes:

The provision (benefit) for income taxes consists of:

	<u>2019</u>	<u>2018</u>
Current Federal income taxes	\$-0-	\$43,757
Current State income taxes	110,891	288,362
Deferred Federal income taxes	957,970	756,854
Deferred State income taxes	<u>260,347</u>	<u>124,506</u>
	<u>\$1,329,208</u>	<u>\$1,213,479</u>

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7. Income Taxes (concluded):

The net deferred income tax asset (liability) consists of:

Tax effect of net operating loss carry-forwards	\$661,454	\$-0-
Basis in fixed assets	(1,470,649)	158,589
AMT credits	333,219	197,733
Rent receivable	(199,733)	(250,845)
Investments in partnerships	(769,144)	(315,692)
Other	<u>16,322</u>	<u>-0-</u>
	<u>\$(1,428,531)</u>	<u>\$(210,215)</u>

A reconciliation of the provision (benefit) for income taxes with amounts determined by applying the statutory U.S. Federal income tax rate before income taxes is as follows:

	<u>2019</u>	<u>2018</u>
Federal statutory rate (21.0% in 2019 and 29.7% blended rate in 2018)	\$584,416	\$928,185
State tax – net of Federal effect	110,891	288,362
Losses (income) attributable to noncontrolling interests in pass-through entities	286,709	(101,053)
Other	<u>347,192</u>	<u>97,985</u>
Provision (benefit) for income taxes	<u>\$1,329,208</u>	<u>\$1,213,479</u>

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. The Tax Act makes significant changes to the Internal Revenue Code, including but not limited to, decreasing the statutory corporate tax rate from 35% to 21% effective January 1, 2018, resulting in a blended rate of 29.7% for fiscal 2018, and repealing AMT tax treatment. The Company calculated its best estimate of the impact of the Tax Act in its income tax provision and re-measured its deferred tax assets and liabilities at the enacted corporate tax rate of 21% as of the enacted date, in accordance with its understanding of the Tax Act and available guidance. During the third quarter of fiscal 2018, the Company recorded charges of approximately \$200,000 within its income tax provision in connection with the Tax Act, which related to the revaluation of the Company's deferred tax assets and liabilities.

8. Leases:

The Company leases commercial and residential real estate to tenants under various operating leases expiring through 2038.

Minimum future rentals to be received on non-cancellable commercial real estate leases as of April 30, 2019 are as follows:

	<u>Year Ending April 30,</u>
2020	\$12,614,813
2021	12,259,346
2022	10,957,061
2023	9,123,702
2024	7,889,163
Thereafter	<u>28,201,456</u>
Total	<u>\$81,045,541</u>

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9. Investments in Affiliates:

Summarized financial and other information for the Company's investment in Dover Parkade LLC (Dover) follows:

Dover – New Jersey:

As of and for the years ended April 30,
Company ownership – 50%

	<u>2019</u>	<u>2018</u>
Assets	\$11,230,333	\$11,356,857
Liabilities	18,501,328	18,691,850
Members' deficit	(7,270,995)	(7,334,993)
Revenue	2,781,338	2,769,740
Operating expenses	1,228,906	1,318,403
Non-operating expense, net	(768,433)	(808,802)
Net income (loss)	783,999	642,535

Dover's major tenant is Stop & Shop, which provided 52% and 51% of the total revenue in the years ended April 30, 2019 and 2018, respectively, under a lease that expires on June 30, 2026.

10. Concentrations of Credit Risk:

The Company's financial instruments that are subject to concentrations of credit risk consist of cash and cash equivalents, marketable securities, and accounts, notes and other receivables.

The Company places its cash deposits, including investments in certificates of deposit, with various financial institutions. Bank deposits may be in excess of current Federal depository insurance limits. The Company manages exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties and procedures to monitor its credit risk concentrations.

The Company assesses the financial strength of its tenants prior to executing leases and typically requires a security deposit and prepayment of rent. The Company establishes an allowance for doubtful accounts receivable based upon factors surrounding the credit risk of specific tenants, historical trends and other information.

The Company assesses the financial strength of CVS prior to incurring costs in connection with the development of CVS pharmacy stores. Based on historical experience and other information, no allowance for doubtful accounts related to these receivables is considered necessary by management as of April 30, 2019 or 2018.

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11. Segment Information:

The factors used by the Company to identify reportable segments include differences in products and services and segregated operations within the Company. The first segment, “Real Estate Operations” participates in the purchase, development, management, ownership and the sale of real estate. Within its second segment, “Fee for Service”, the Company provides preferred developer services to CVS and Cumberland Farms Inc. in certain geographic areas. Summary financial information for the two reportable segments is as follows:

	<u>2019</u>	<u>2018</u> (As Adjusted)
Revenues:		
Real Estate Operations	\$78,123,527	\$78,733,962
Fee for Service	<u>2,624,250</u>	<u>3,935,000</u>
Total	<u>\$80,747,777</u>	<u>\$82,668,962</u>
Operating Cost and Expense:		
Real Estate Operations	\$58,218,254	\$61,515,887
Fee for Service	3,251,177	4,011,464
Administrative Expenses	<u>5,902,992</u>	<u>5,690,128</u>
Total	<u>\$67,372,423</u>	<u>\$71,217,479</u>

All costs after administrative expenses are cost of the real estate operation.

The only assets in the balance sheet belonging to the Fee for Service segment is restricted cash of \$231,962 in 2019 and \$375,501 in 2018 and receivables of \$2,495,945 in 2019 and \$4,516,807 in 2018.

12. Purchases of Real Estate:

Katy, TX – Land Purchase: On May 3, 2018, the Company purchased a 2.45 acre parcel of land in Katy, TX for \$2,386,648 including closing costs. This purchase was financed with proceeds from a construction loan of \$1,487,973, cash of \$823,496, and working capital of \$75,179. Key terms of the construction loan are as follows:

Loan Amount:	\$4,325,000
Maturity Date:	May 3, 2022
Interest Rate:	2.50% plus One Month ICE LIBOR rate, as defined, for first year and 6.5% through the maturity date; 12.0% thereafter.
Payments:	Interest only payable monthly during the first year. Thereafter, principal and interest payable monthly using a 25-year amortization.
Guarantee:	The Company (Corporate).

The Company subsequently sold this property on December 22, 2018.

Katy, TX (Cane Island) – Land Purchase: On July 25, 2018, the Company purchased a 5.32 acre parcel of land in Katy, TX for \$2,977,851 including closing costs. This purchase was primarily financed through utilization of the Company’s credit lines.

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12. Purchases of Real Estate (concluded):

Houston, TX (West Mount): On December 27, 2018, the Company purchased a 2.49 acre property in Houston, TX for \$4,625,434 including closing costs. This purchase was financed with proceeds from a construction loan of \$4,274,945, cash of \$149,607, and working capital of \$200,882. Key terms of the construction loan are as follows:

Maximum Loan Amount:	\$8,425,000
Maturity Date:	July 1, 2020, with an option to extend to January 1, 2021 for a fee of 0.50% of original principal amount
Interest Rate:	10.0%
Payments:	Interest only payable monthly. Principal amount due at maturity.
Guarantee:	The Company (Corporate).

Houston, TX (West Lake): On December 28, 2018, the Company purchased an 8.02 acre parcel of land adjacent to its existing property in Houston, TX for \$3,404,586 including closing costs. This purchase was financed by utilization of one of the Company's lines of credit of \$3,000,000, cash of \$354,667, and working capital of \$49,919.

13. Contingencies:

The Company is involved in legal proceedings which arise during the normal course of its business, including disputes over tax assessments, commercial contracts, lease agreements, construction contracts, employee disputes and personal injuries. No amounts have been accrued in these consolidated financial statements since the outcome of these matters is uncertain and the amount of liability, if any, cannot be determined. However, the Company does not believe the outcome of any of these proceedings will have a material impact on its consolidated financial statements.

In March 2019, the Company received a letter from the Massachusetts Attorney General's Office ("AGO") claiming that it improperly abated asbestos during building renovations at the Spring Gate Apartments in Rockland, Massachusetts, potentially in violation of the Massachusetts Clean Air Act and Massachusetts False Claims Act. The AGO has not filed suit, and the Company signed an agreement at the AGO's request tolling the statute of limitations until the end of 2019. The AGO has stated that it intends to seek a civil monetary fine but has not indicated the amount of the potential fine. The Company disputes the allegations.

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14. Subsequent Events:

The Company has evaluated for subsequent events through July 31, 2019, the date the financial statements were issued.

Houston, TX – Sales of Land: On May 10 and 15, 2019, the Company sold two parcels of its land in Houston TX for \$3,039,832 (cost of \$1,365,927). The Company continues to own 23.65 acres of land on this property.

Gretna, LA – Property Purchase: On May 15, 2019, the Company purchased a property with a single retail tenant in Gretna, LA for \$5,922,274 including closing costs. The Company plans to resell it by the end of the fiscal year ending April 30, 2020. This purchase was financed with proceeds from a new loan of \$5,253,669, borrowings from a credit line of \$500,000, cash of \$68,605, and working capital of \$100,000. Key terms of the loan are as follows:

Loan Amount:	\$5,310,000
Maturity Date:	May 15, 2020
Interest Rate:	One Month ICE LIBOR rate plus 3.00% up to maturity date and 12.0% thereafter.
Payments:	Interest only payable monthly with principal and unpaid interest payable in full at maturity.
Guarantors:	The Company (Corporate).

Buda, TX – Refinance: On June 21, 2019, the Company refinanced its land loan on its property in Buda, TX. The land loan, which had a principal balance of \$1,511,118, was replaced by another land improvement loan of \$3,500,000, which will help fund the development of a single tenant building on the property. A line of credit balance of \$500,000 was repaid with the proceeds. The new land loan has an interest rate equal to the greater of 6.00% or the Prime Rate plus 0.50%. The loan is interest only payable monthly through the maturity date of June 10, 2021, with a principal payment of \$1,500,000 due on December 31, 2019 (with a possible six month extension if agreed by the parties) and the remaining principal due on the maturity date.