

FIRST HARTFORD CORPORATION AND SUBSIDIARIES

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

YEARS ENDED APRIL 30, 2022 AND 2021

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
First Hartford Corporation
Manchester, Connecticut

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of First Hartford Corporation (the “Company”) as of April 30, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in shareholders’ equity (deficiency), and cash flows for each of the two years in the period ended April 30, 2022, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at April 30, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended April 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated 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 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter(s)

Critical audit matters are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Mahoney Sabol & Company, LLP

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

Glastonbury, Connecticut

August 12, 2022

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
APRIL 30, 2022 AND 2021

| ASSETS | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| Real estate and equipment: | | |
| Developed properties and property under construction (including \$81,919,164 in 2022 and \$82,286,187 in 2021 for VIEs) | \$281,348,100 | \$282,477,209 |
| Equipment and leasehold improvements (including \$2,964,510 in 2022 and \$2,874,614 in 2021 for VIEs) | <u>4,996,308</u> | <u>8,060,008</u> |
| | 286,344,408 | 290,537,217 |
| Less accumulated depreciation and amortization (including \$27,154,370 in 2022 and \$24,845,237 in 2021 for VIEs) | <u>(72,379,282)</u> | <u>(69,669,929)</u> |
| | 213,965,126 | 220,867,288 |
| | | |
| Properties held for sale | 9,474,267 | -0- |
| | | |
| Cash and cash equivalents (including \$2,378,663 in 2022 and \$2,985,780 in 2021 for VIEs) | 18,213,183 | 11,963,381 |
| | | |
| Cash and cash equivalents – restricted (including \$381,129 in 2022 and \$371,786 in 2021 for VIEs) | 1,047,180 | 1,283,312 |
| | | |
| Marketable securities (including \$456,257 in 2022 and \$587,273 in 2021 for VIEs) | 456,257 | 587,273 |
| | | |
| Accounts and notes receivable, net (including \$219,394 in 2022 and \$123,050 in 2021 for VIEs) | 3,635,283 | 5,454,749 |
| | | |
| Other receivables | 588,411 | 879,251 |
| | | |
| Deposits and escrow accounts (including \$4,061,002 in 2022 and \$4,418,916 in 2021 for VIEs) | 8,696,072 | 8,967,918 |
| | | |
| Prepaid expenses (including \$1,298,530 in 2022 and \$413,520 in 2021 for VIEs) | 2,453,267 | 1,561,689 |
| | | |
| Deferred expenses, net (including \$82,969 in 2022 and \$104,200 in 2021 for VIEs) | 3,031,689 | 3,039,308 |
| | | |
| Investment in affiliates | 1,582,748 | 200 |
| | | |
| Due from related parties and affiliates | <u>767,249</u> | <u>6,777</u> |
| | | |
| Total assets | <u>\$263,910,732</u> | <u>\$254,611,146</u> |

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
APRIL 30, 2022 AND 2021
(continued)

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| Liabilities: | | |
| Mortgages and other notes payable: | | |
| Construction loans payable | \$45,733,154 | \$33,204,751 |
| Mortgages payable (including \$60,150,722 in 2022 and \$61,074,746 in 2021 for VIEs) | 177,988,826 | 186,747,674 |
| Notes payable (including \$1,704,697 in 2022 and \$1,704,697 in 2021 for VIEs) | 1,704,697 | 3,483,042 |
| Lines of credit | 1,250,000 | 7,610,533 |
| Less: Deferred debt issuance costs (including \$1,338,016 in 2022 and \$1,385,222 in 2021 for VIEs) | <u>(2,322,932)</u> | <u>(2,346,485)</u> |
| | 224,353,745 | 228,699,515 |
| Accounts payable (including \$805,494 in 2022 and \$689,557 in 2021 for VIEs) | 8,193,794 | 6,003,220 |
| Other payables | 2,087,426 | 2,654,876 |
| Accrued liabilities (including \$4,328,484 in 2022 and \$4,085,082 in 2021 for VIEs) | 8,982,231 | 10,161,695 |
| Derivative liability | 670,581 | 3,871,369 |
| Deferred income (including \$194,735 in 2022 and \$201,375 in 2021 for VIEs) | 625,067 | 964,491 |
| Other liabilities | -0- | 615,642 |
| Due to related parties and affiliates (including \$-0- in 2022 and \$522,160 in 2021 for VIEs) | 1,319,423 | 1,009,236 |
| Deferred tax liability | <u>4,735,269</u> | <u>2,122,580</u> |
| Total liabilities | <u>250,967,536</u> | <u>256,102,624</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 3,175,908 in 2022 and 2021, outstanding 2,278,664 in 2022 and 2021 | 3,175,908 | 3,175,908 |
| Capital in excess of par | 4,974,876 | 4,974,876 |
| Accumulated earnings (deficit) | 14,128,144 | (945,742) |
| Treasury stock, at cost, 897,244 shares in 2022 and 2021 | <u>(4,994,594)</u> | <u>(4,994,594)</u> |
| Total First Hartford Corporation | 17,284,334 | 2,210,448 |
| Noncontrolling interests | <u>(4,341,138)</u> | <u>(3,701,926)</u> |
| Total shareholders' equity (deficiency) | <u>12,943,196</u> | <u>(1,491,478)</u> |
| Total liabilities and shareholders' equity (deficiency) | <u>\$263,910,732</u> | <u>\$254,611,146</u> |

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Revenues: | | |
| Rental income | \$32,210,230 | \$32,367,691 |
| Service income | 5,654,229 | 8,100,040 |
| Sales of real estate | 36,873,047 | 47,049,534 |
| Other revenues | <u>5,554,340</u> | <u>3,156,958</u> |
| | <u>80,291,846</u> | <u>90,674,223</u> |
| Operating costs and expenses: | | |
| Rental expenses (includes depreciation and amortization of \$6,493,603 and \$6,736,150 in 2022 and 2021, respectively) | 22,500,953 | 22,598,398 |
| Service expenses | 2,832,578 | 5,416,253 |
| Cost of real estate sales | 26,000,190 | 38,559,561 |
| Other expenses | 6,429,119 | 4,196,951 |
| Selling, general and administrative expenses | <u>8,051,628</u> | <u>6,777,135</u> |
| | <u>65,814,468</u> | <u>77,548,298</u> |
| Income from operations | <u>14,477,378</u> | <u>13,125,925</u> |
| Non-operating income (expense): | | |
| Equity in earnings of unconsolidated subsidiaries | 7,265,902 | 360,000 |
| Other income (expense), net | 4,041,663 | 929,575 |
| Gain (loss) on derivatives | 3,200,788 | 2,004,361 |
| Forgiveness of debt | 1,778,345 | 1,778,300 |
| Interest expense | <u>(10,281,433)</u> | <u>(11,043,184)</u> |
| | <u>6,005,265</u> | <u>(5,970,948)</u> |
| Income (loss) before income taxes | 20,482,643 | 7,154,977 |
| Income tax expense (benefit) | <u>4,800,536</u> | <u>1,243,154</u> |
| Consolidated net income (loss) | 15,682,107 | 5,911,823 |
| Net (income) loss attributable to noncontrolling interests | <u>(608,221)</u> | <u>(653,387)</u> |
| Net income (loss) attributable to First Hartford Corporation | <u>\$15,073,886</u> | <u>\$5,258,436</u> |
| Net income (loss) per share – basic | <u>\$6.62</u> | <u>\$2.31</u> |
| Net income (loss) per share – diluted | <u>\$6.62</u> | <u>\$2.31</u> |
| Shares used in basic per share computation | <u>2,278,664</u> | <u>2,279,464</u> |
| Shares used in diluted per share computation | <u>2,278,664</u> | <u>2,279,464</u> |

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|--------------------|
| Consolidated net income (loss) | \$15,682,107 | \$5,911,823 |
| Other comprehensive income (loss), net of taxes: | | |
| Unrealized gains (losses) on marketable securities | <u>-0-</u> | <u>-0-</u> |
| Total comprehensive income (loss) | <u>15,682,107</u> | <u>5,911,823</u> |
| Amounts attributable to noncontrolling interests: | | |
| Net (income) loss | (608,221) | (653,387) |
| Unrealized (gains) losses on marketable securities | <u>-0-</u> | <u>-0-</u> |
| | <u>(608,221)</u> | <u>(653,387)</u> |
| Comprehensive income (loss) attributable to First Hartford Corporation | <u>\$15,073,886</u> | <u>\$5,258,436</u> |

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

| | Common Stock | Capital in Excess of Par | Accumulated Earnings (Deficit) | Treasury Stock | Total First Hartford Corporation | Noncontrolling Interests | Total |
|--------------------------|--------------------|--------------------------------|-----------------------------------|----------------------|-------------------------------------|-----------------------------|---------------------|
| Balance, April 30, 2020 | \$3,175,908 | \$4,974,876 | \$(6,204,178) | \$(4,989,794) | \$(3,043,188) | \$(3,908,429) | \$(6,951,617) |
| Contributions | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| Distributions | -0- | -0- | -0- | -0- | -0- | (446,884) | (446,884) |
| Purchase of common stock | -0- | -0- | -0- | (4,800) | (4,800) | -0- | (4,800) |
| Net income (loss) | <u>-0-</u> | <u>-0-</u> | <u>5,258,436</u> | <u>-0-</u> | <u>5,258,436</u> | <u>653,387</u> | <u>5,911,823</u> |
| Balance, April 30, 2021 | 3,175,908 | 4,974,876 | (945,742) | (4,994,594) | 2,210,448 | (3,701,926) | (1,491,478) |
| Contributions | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| Distributions | -0- | -0- | -0- | -0- | -0- | (1,247,433) | (1,247,433) |
| Purchase of common stock | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| Net income (loss) | <u>-0-</u> | <u>-0-</u> | <u>15,073,886</u> | <u>-0-</u> | <u>15,073,886</u> | <u>608,221</u> | <u>15,682,107</u> |
| Balance, April 30, 2022 | <u>\$3,175,908</u> | <u>\$4,974,876</u> | <u>\$14,128,144</u> | <u>\$(4,994,594)</u> | <u>\$17,284,334</u> | <u>\$(4,341,138)</u> | <u>\$12,943,196</u> |

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Operating activities: | | |
| Consolidated net income (loss) | \$15,682,107 | \$5,911,823 |
| Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities: | | |
| Gain on sale of real estate | (10,872,857) | (8,489,973) |
| Gain on sale of net assets of Manchester Enterprises, LLC | (4,082,772) | -0- |
| Equity in earnings of unconsolidated subsidiaries, net of distributions | (6,905,902) | -0- |
| Depreciation of real estate and equipment | 6,785,187 | 6,368,012 |
| Amortization of deferred expenses | 436,934 | 494,872 |
| Deferred income taxes | 2,612,689 | 1,078,407 |
| (Gain) loss on marketable securities | 61,334 | (193,620) |
| Gain on sale of equity investment | -0- | (711,968) |
| Forgiveness of debt | (1,778,345) | (1,778,300) |
| Unrealized (gain) loss on derivatives | (3,200,788) | (2,004,361) |
| Changes in operating assets and liabilities: | | |
| Accounts, notes and other receivables | 1,596,325 | (1,303,313) |
| Deposits and escrows | 236,644 | (1,100,003) |
| Prepaid expenses | (1,020,901) | (114,000) |
| Deferred expenses | (747,918) | (68,385) |
| Accrued liabilities | 1,772,947 | (1,318,503) |
| Deferred income | (339,424) | (563,453) |
| Accounts and other payables | <u>1,799,632</u> | <u>(132,022)</u> |
| Net cash provided by (used in) operating activities | <u>2,034,892</u> | <u>(3,924,787)</u> |
| Investing activities: | | |
| Investments in marketable securities | (138,188) | (202,657) |
| Proceeds from sale of marketable securities | 207,870 | 214,852 |
| Purchases of equipment and tenant improvements | (128,711) | (386,627) |
| Proceeds from sale of equity investment | -0- | 1,167,039 |
| Proceeds from sale of school building | 6,020,849 | -0- |
| Proceeds from sale of net assets of Manchester Enterprises, LLC | 6,090,003 | -0- |
| Proceeds from sales of real estate | 36,873,047 | 47,049,534 |
| Additions to developed properties and property under construction | <u>(45,542,869)</u> | <u>(33,769,996)</u> |
| Net cash provided by (used in) investing activities | <u>3,382,001</u> | <u>14,072,145</u> |

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021
(continued)

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Financing activities: | | |
| Purchase of common stock | \$-0- | \$(4,800) |
| Distributions to noncontrolling interests | (599,956) | (446,884) |
| Proceeds from: | | |
| Construction loans | 30,873,894 | 18,172,685 |
| Mortgages | 1,792,000 | 8,108,153 |
| Notes | -0- | 1,778,345 |
| Credit lines | 4,970,000 | 4,435,533 |
| Principal payments on: | | |
| Construction loans | (18,345,491) | (12,546,422) |
| Mortgages | (6,699,399) | (22,203,168) |
| Notes | -0- | -0- |
| Credit lines | (11,330,533) | (5,930,000) |
| Advances (repayments) to related parties and affiliates, net | <u>(63,738)</u> | <u>381,497</u> |
| Net cash provided by (used in) financing activities | <u>596,777</u> | <u>(8,255,061)</u> |
| Net change in cash and cash equivalents and restricted cash | 6,013,670 | 1,892,297 |
| Cash and cash equivalents and restricted cash, beginning of year | <u>13,246,693</u> | <u>11,354,396</u> |
| Cash and cash equivalents and restricted cash, end of year | <u>\$19,260,363</u> | <u>\$13,246,693</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | \$10,095,160 | \$10,887,158 |
| Cash paid (refunded) during the year for income taxes | \$(196,694) | \$93,799 |
| Non-cash Investing and Financing Activities: | | |
| Non-cash distributions to noncontrolling interests | \$(647,477) | \$-0- |
| Cash and cash equivalents | \$18,213,183 | \$11,963,381 |
| Cash and cash equivalents - restricted | <u>1,047,180</u> | <u>1,283,312</u> |
| Cash and cash equivalents and restricted cash, end of year | <u>\$19,260,363</u> | <u>\$13,246,693</u> |

See accompanying notes.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

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 Operations” segment. The Company has a second segment “Fee for Service” in which the Company is engaged as a preferred developer for CVS, Cumberland Farms, and Wild Fork Foods (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 significant intercompany balances and transactions have been eliminated in consolidation.

Beginning in the year ended April 30, 2021, the accounts of Manchester Enterprises, LLC, (MELLC) are included in the consolidated financial statements. The purpose of MELLC was solely to acquire, own, and operate one or more wholly-owned single-purpose LLCs that would develop, acquire, own and operate one or more Dunkin’ Donuts and/or Baskin-Robbins franchises in the State of Texas and to conduct all business and financing activities and all lawful acts and activities incidental thereto, under the Texas Business Organizations Code.

The Managing Members of MELLC are John Toic and Neil Ellis, who own 81% and 18%, respectively, with the other Member, Kirby Dolliole, owning 1%. Mr. Toic is President of the Company, Mr. Ellis is Chairman of the Company, and both are Directors of FHC. Mr. Dolliole is an employee of the Company.

MELLC entered into a Store Development Agreement with Dunkin Brands, Inc. (DBI) to build up to 18 stores in Houston, TX and the surrounding area. Each store built under this agreement would be individually owned by an Operating Company that would be 100% owned by MELLC. Each Operating Company entered into a separate Franchise Agreement with DBI. Also, each Operating Company entered into an Administrative Support Agreement (ASA) with FHRC where FHRC was compensated for providing administrative and other back-office functions. The compensation paid to FHRC for these services consisted of 99% of the Free Cash Flow of the Operating Companies (as defined).

While the Company does not have any direct ownership in MELLC (or the underlying Operating Companies), it financed its activities and received substantially all the cash flows of MELLC. While the Company does not have a voting interest, it controls MELLC through its related parties, Mr. Toic and Mr. Ellis. Also, the Company was entitled to receive all assets (and assume any liabilities) upon the dissolution of the entity. Therefore, MELLC is included in the consolidated financial statements.

On April 9, 2022, the Company sold substantially all of the net assets of MELLC and its subsidiaries, including the Store Development Agreement, for \$6,250,000. The Company had built three stores under this agreement and a fourth store was under construction at the time of the sale. The gain recorded on this sale was \$4,082,772 and is included in Other income (expense) in the Consolidated Statement of Operations.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued):

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

In accordance with ASU 2016-18, the Company presents the change in total cash, cash equivalents, and restricted cash within the statement 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. 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.

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 Service Income – 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, 2022 and 2021, the Company had real estate sales totaling \$36,873,047 and \$47,049,534, respectively. The cost of the property sold was \$26,000,190 and \$38,559,561 for 2022 and 2021, respectively. None of the property sold was otherwise providing significant ongoing cash flows to the Company.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued):

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 primarily represents retail sales at the Company's establishments it owns at its shopping centers and its Dunkin Donuts' stores (which were sold on April 9, 2022). 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, Cumberland Farms, and Wild Fork Foods. 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, 2022 and 2021 were \$1,510,550 and \$1,876,000, respectively. Fees and reimbursable expenses earned for Cumberland Farms during the years ended April 30, 2022 and 2021 were \$515,000 and \$310,000, respectively. Fees and reimbursable expenses earned for Wild Fork Foods during the years ended April 30, 2022 and 2021 were \$325,000 and \$100,000, respectively. These fees are included in service income in the consolidated statements of operations.

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 \$303,964 and \$340,529 as of April 30, 2022 and 2021, 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, 2022 and 2021, the Company had no remaining performance obligations relating to construction projects.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued):

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, 2022 and 2021, contract assets of \$-0- and \$-0-, respectively, are included in accounts and notes receivable in the accompanying consolidated balance sheets and contract liabilities totaling \$250,000 and \$400,000 as of April 30, 2022 and 2021 are included in deferred income in the accompanying consolidated balance sheets. The remaining balance of deferred income consists primarily of prepayments of monthly rent and preferred developer fees.

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.

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 that 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 \$703,781 and \$1,354,753 as of April 30, 2022 and 2021 respectively, and have been included as "Other payables" in the consolidated balance sheets. Related reimbursements due from CVS were \$588,411 and \$879,251 as of April 30, 2022 and 2021, respectively, and have been included in "Other receivables" in the consolidated balance sheets.

Also included in "Other payables" as of April 30, 2022 and 2021 were \$1,208,263 and \$1,208,263, respectively, of cost reimbursements due upon completion of development projects.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued):

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 and money required to be held in a cash management account as a result of failing to meet certain covenants as a result of the bankruptcy of a significant tenant (i.e., Steinmart) at our Lubbock, TX shopping center.

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.

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, 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, 2022, \$324,596 was capitalized. In the year ended April 30, 2021, \$388,652 was capitalized.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued):

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 \$870,575 and \$1,129,652 as of April 30, 2022 and 2021, respectively.

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

| | <u>Year Ending April 30,</u> | |
|------------|------------------------------|----------------|
| 2023 | | \$158,919 |
| 2024 | | 128,207 |
| 2025 | | 119,305 |
| 2026 | | 101,664 |
| 2027 | | 85,469 |
| Thereafter | | <u>277,011</u> |
| Total | | \$870,575 |

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

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 \$190,864 as of April 30, 2022 and (\$615,642) as of April 30, 2021 is included in Investment in affiliates and Other liabilities, respectively. The Company recorded equity in earnings of unconsolidated subsidiaries of \$1,166,506 and \$360,000 for the years ended April 30, 2022 and 2021, respectively, which includes distributions of \$360,000 and \$360,000, respectively.

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 accounted for its 50% interest in Ware Seguin 1518, LLC under the equity method of accounting. Ware Seguin 1518, LLC owned property in Schertz, TX that it planned 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 were 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 \$128,572 was made for a total investment of \$455,070. The Company was 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. On April 30, 2021, the Company’s share of this investment was sold for \$1,167,039, resulting in a gain of \$711,969 that is included in Other income (expense) in the Consolidated Statement of Operations.

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 75%-owned subsidiary’s investment in the housing property 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 property management fee equal to 4% of operating revenue of the housing property. 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 installment (\$324,119) was paid upon conversion to permanent financing; the third installment (\$524,758) was paid in fiscal 2021 upon satisfaction of various conditions. The balance of the developer fee, \$2,470,123, was to be paid over 15 years contingent upon sufficient net cash flows of the property; of this amount, \$1,227,930 has been paid leaving an additional \$1,242,193 to be received.

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021**

1. Summary of Significant Accounting Policies (continued):

Investment in Affiliated Entities (concluded):

On June 8, 2021, the Company's joint venture, CP Associates, LLC, distributed assets (the school and restaurant parcels in Cranston, RI, excluding the police station parcel) to its Members as Tenants in Common. Also on June 8, 2021, the Company's joint venture, Trolley Barn, LLC, distributed its assets (vacant land in Cranston, RI) to its Members as Tenants in Common and was dissolved. One of the Members of these three properties, Brewery Parkade, Inc., now directly owns 50% of each of these properties and is a wholly-owned subsidiary of the Company. Tenancy in common provides each holder a distinct, separately transferable interest in the property. While these changes have no impact on the Company's net income (loss), the financial statements are impacted in that, while these properties were previously consolidated, they are now accounted for using the equity method of accounting since the Company does not have the stand-alone power to make decisions regarding the financing, development, sale, or operations of these properties.

On April 7, 2022, the school building was sold for \$16,000,000. The Company's 50% share on the profit on this sale was \$5,909,208 and \$6,020,849 was distributed to the Company. There remains approximately 2.96 acres of land within that tenancy in common as of April 30, 2022.

Below is the financial activity in these properties through April 30, 2022:

| | <u>School</u> | <u>Restaurant</u> | <u>Land</u> | <u>Total</u> |
|----------------------------|--------------------|-------------------|------------------|--------------------|
| Investment, June 8, 2021 | \$994,324 | \$60,354 | \$258,459 | \$1,313,137 |
| Equity (loss) in earnings | 6,056,834 | 48,530 | (5,968) | 6,099,396 |
| Distributions | <u>(6,020,849)</u> | <u>-0-</u> | <u>-0-</u> | <u>(6,020,849)</u> |
| Investment, April 30, 2022 | <u>\$1,030,309</u> | <u>\$108,884</u> | <u>\$252,491</u> | <u>\$1,391,684</u> |

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.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued):

Fair Value Measurements (continued):

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, 2022 and 2021, investments consist of equity securities, which are classified as available for sale. Investments in marketable securities are stated at fair value of \$456,257 and \$587,273 as of April 30, 2022 and 2021 (cost of \$499,855 and \$544,862). 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 in net earnings. Gains or losses on securities sold are based on the specific identification method.

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. Also, on June 1, 2019, the Company, through a wholly-owned subsidiary, entered into a separate floating-to-fixed interest rate swap agreement with a bank that expires January 2029. 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, 2022 and 2021 totaled \$3,200,787 and \$2,004,361, respectively, and the Company has recorded a liability of \$670,581 and \$3,871,369 in the consolidated balance sheets, which represents the fair value of the interest rate swaps as of April 30, 2022 and 2021, respectively.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued):

Fair Value Measurements (concluded):

The following table presents information about the Company's respective assets and liabilities measured at fair value on a recurring basis at April 30, 2022 and 2021, including the fair value measurements and the level of inputs used in determining those fair values:

| April 30, 2022 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------|------------------|----------------------|----------------|----------------------|
| Assets: | | | | |
| U.S. Equity Securities | <u>\$456,257</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$456,257</u> |
| Liabilities: | | | | |
| Interest Rate Swap Agreement | <u>\$ -0-</u> | <u>\$(670,581)</u> | <u>\$ -0-</u> | <u>\$(670,581)</u> |
| | | | | |
| April 30, 2021 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Assets: | | | | |
| U.S. Equity Securities | <u>\$587,273</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$587,273</u> |
| Liabilities: | | | | |
| Interest Rate Swap Agreement | <u>\$ -0-</u> | <u>\$(3,871,369)</u> | <u>\$ -0-</u> | <u>\$(3,871,369)</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, 2022 and 2021.

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. When impairment indicators are identified, the Company reduces the carrying value of the asset or group of assets, to the undiscounted expected cash flows through a charge to impairment loss in the current period.

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, 2022 or April 30, 2021.

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, 2022 and 2021, 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, 2022 and 2021, the Company did not recognize any interest or penalties related to unrecognized tax benefits.

The statute of limitations is three years unless there is fraud or substantial understatement of income. Therefore, tax returns beginning with fiscal year 2020 are open to examination by Federal, local and state authorities.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

2. Consolidated Variable Interest Entities

The Company's consolidated financial statements include the accounts of Rockland Place Apartments Limited Partnership ("Rockland") and Clarendon Hill Somerville Limited Partnership ("Clarendon"). The Company has consolidated Rockland and Clarendon 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.

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, 2022 and 2021 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

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, | |
|-----------------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Real estate and equipment, net | \$59,797,043 | \$62,127,983 |
| Other assets | <u>8,877,944</u> | <u>8,994,949</u> |
| Total assets | 68,674,987 | 71,122,932 |
| Intercompany profit elimination | <u>(2,067,740)</u> | <u>(2,204,324)</u> |
| Consolidated total assets | <u>\$66,607,247</u> | <u>\$68,918,608</u> |
| Mortgages and other notes payable | \$60,517,404 | \$61,394,221 |
| Other liabilities | <u>5,271,071</u> | <u>4,975,790</u> |
| Total liabilities | <u>\$65,788,475</u> | <u>\$66,370,011</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 \$13,503,484 for the year ended April 30, 2022 and \$13,182,505 for the year ended April 30, 2021. The combined net loss for Rockland and Clarendon was \$1,674,630 for the year ended April 30, 2022 and \$1,229,938 for the year ended April 30, 2021. 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.

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

Information about the Company's debt follows:

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| Construction loans and mortgages payable with interest rates ranging from zero to 9.50% at April 30, 2022 and 2021 and maturities at various dates through 2056. | \$223,721,980 | \$219,952,425 |
| Notes payable with interest rates ranging from zero to 4.40% at April 30, 2022 and 2021 and maturities ranging from 2030 to 2050. | 1,704,697 | 3,483,042 |
| Lines of credit with interest rates ranging from 3.00% to 4.00% at April 30, 2022 and 2021 and maturities at various dates through 2023. | <u>1,250,000</u> | <u>7,610,533</u> |
| | 226,676,677 | 231,046,000 |
| Less deferred debt issuance costs | <u>(2,322,932)</u> | <u>(2,346,485)</u> |
| | <u>\$224,353,745</u> | <u>\$228,699,515</u> |

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021**

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

For the years ended April 30, 2022 and 2021, \$791,177 and \$170,606 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, 2022 are as follows:

| <u>Year Ending April 30,</u> | |
|------------------------------|----------------------|
| 2023 | \$48,083,083 |
| 2024 | 22,592,923 |
| 2025 | 13,200,784 |
| 2026 | 29,771,480 |
| 2027 | 40,163,438 |
| Thereafter | <u>72,864,969</u> |
| | <u>\$226,676,677</u> |

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

Construction Loans:

Edinburg, TX – Construction Loan: The remaining balance of the loan with Protective Life is \$10,520,990 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 (callable by the lender) with an interest rate of 5.0%. This remaining loan is personally guaranteed by the Chairman of the Company.

East Brunswick, NJ – Construction Loan: On June 17, 2021, the Company obtained a \$2,660,000 construction loan for a build-to-suit job in East Brunswick, NJ. Proceeds of the loan at closing of \$59,673 were primarily used to pay loan closing costs. The interest rate on the loan during the Construction Phase was the lesser of 0.75% or the One-Month LIBOR Rate, as defined, plus 3.00%. The monthly loan payments were interest only through July 1, 2022, the Conversion Date. Thereafter, the interest rate on the loan during the Permanent Phase was the lesser of 0.75% or the One-Month LIBOR Rate, as defined, plus 2.25%, with principal and interest payments payable monthly using a 20-year amortization period. The maturity date was July 1, 2032 at which time any remaining principal balance was due. The Company was also a guarantor on this loan. On March 18, 2022, the Company repaid this loan in full upon sale of the underlying property.

Butler, NJ – Construction Loan: On October 6, 2021, obtained a \$2,800,000 construction loan for a build-to-suit job in Butler, NJ. Proceeds of the loan at closing were \$1,495,197. The interest rate on the loan during the Construction Phase was the lesser of 0.75% or the One-Month LIBOR Rate, as defined, plus 3.00%. The monthly loan payments are interest only through October 1, 2022, the Conversion Date. Thereafter, the interest rate on the loan during the Permanent Phase was the lesser of 0.75% or the One-Month LIBOR Rate, as defined, plus 2.25%, with principal and interest payments payable monthly using a 20-year amortization period. The maturity date was October 1, 2032 at which time any remaining principal balance is due. The Company was also a guarantor on this loan. On March 18, 2022, the Company repaid this loan in full upon sale of the underlying property.

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021**

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

Del Valle, TX – Construction Loan: On November 3, 2021, the Company obtained a construction loan to build a single-tenant building on its property in Del Valle, TX. Key terms of the construction loan are as follows:

| | |
|----------------|---|
| Loan Amount: | \$6,000,000 |
| Maturity Date: | May 3, 2023 |
| Interest Rate: | 2.75% plus One Month ICE LIBOR rate, as defined, with a floor of 3.75% through the maturity date; 12.0% thereafter. |
| Payments: | Interest only payable monthly with full principal payment due at maturity. No prepayment allowed prior to completion of the Improvements, as defined. |
| Guarantee: | The Company (Corporate). |

Notes Payable:

PPP Loans: On September 14, 2021, the Company was informed that its second Paycheck Protection Program (PPP) Note of \$1,778,345, which was executed on March 8, 2021, was fully forgiven by the Small Business Administration (SBA). The Company no longer has any PPP loan balances outstanding.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

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, as amended, was for \$3,760,000 and was used from time to time primarily to fund initial investments related to development opportunities. The interest rate on this loan was 3.00% plus One Month ICE LIBOR rate (with floor of 1.0%) up to maturity date (i.e., twelve months from issuance of proceeds) and 12.0% thereafter. As of April 30, 2022 and 2021, the Company had borrowings of \$-0- and \$3,375,000, respectively, against this credit line. This credit line is currently being renegotiated.

On December 7, 2015, the Company entered into a revolving demand loan agreement (“line of credit”) with a regional bank. This line of credit, as amended, was for \$3,000,000 and the maturity date was September 30, 2021. This line of credit was used from time to time primarily to fund initial investments related to development opportunities. The interest rate on this loan was Wall Street Journal Prime, with a floor of 3.25%. The loan was unsecured and there were no guarantors. Interest was to be paid monthly; principal was to be repaid within twelve months or on demand, at the bank’s discretion. There were no prepayment penalties. On September 30, 2021, the line of credit was not renewed. As of April 30, 2022 and 2021, the Company had borrowings of \$-0- and \$2,935,533, respectively, against this credit line.

On April 19, 2017, the Company entered into an unsecured line of credit with a regional bank. This line of credit, as amended, was for \$4,000,000 on April 30, 2022 and was subsequently increased to \$5,000,000 on May 19, 2022. Updated terms of the line of credit are as follows:

| | |
|-------------|---|
| Term: | Matures on 5/1/2023 |
| Rate: | One-Month Term Secured Overnight Financing Rate (SOFR) + 3.25% per annum |
| 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 |
| Covenants: | Company must maintain a minimum liquidity of \$2,500,000 |
| 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, 2022 and 2021, the Company had borrowings of \$-0- and \$1,300,000, respectively, against this credit line.

On May 10, 2021, the Company obtained an unsecured credit line with a regional bank. This line of credit is for \$3,000,000 and will be used to fund initial investments related to development opportunities. The interest rate on this loan is the Prime Rate per the Wall Street Journal (with floor of 3.25%). The credit line is subject to annual review. Interest is to be paid monthly; principal is to be repaid within ninety days upon notice by the lender. As of April 30, 2022 and 2021, the Company had borrowings of \$1,250,000 and \$-0-, respectively, against this credit line.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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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, 2022:

| | |
|---|--------------|
| Mortgage loan – Edinburg, TX | \$10,520,990 |
| Mortgage loan – Manchester, CT (Company HQ) | \$ 169,023 |
| Line of credit – Regional bank | \$ -0- |

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:

Parkade Center Inc. (a wholly owned subsidiary of First Hartford Corporation) has a 1.99% interest in Hartford Lubbock Parkade LP II, a partnership, which owns a shopping center in Lubbock, TX. Lubbock Parkade Inc., a wholly owned subsidiary of Journal Publishing Inc., owns 98.01% of the Partnership. Journal Publishing Inc. is owned by Neil H. Ellis, the Chairman of First Hartford Corporation through his ownership of Green Manor Corporation. First Hartford Realty Corporation manages the property and receives a 4% management fee, which is the industry norm for a shopping center.

For the years ended April 30, 2022 and 2021, Parkade Center Inc. and First Hartford Realty Corporation earned the following:

| | | |
|------------------------|-------------|-------------|
| | <u>2022</u> | <u>2021</u> |
| Management Fee (at 4%) | \$43,024 | \$67,221 |

For the years ended April 30, 2022 and 2021, Parkade Center Inc. received distributions of \$0 and \$498, respectively. For the years ended April 30, 2022 and 2021, Lubbock Parkade Inc. received distributions of \$0 and \$24,503, respectively, from Hartford Lubbock LP II.

Included in amounts due from related parties and affiliates is \$694,075 and \$-0- receivable from the Cranston, RI Land tenancy-in-commons at April 30, 2022 and 2021, respectively. These tenancy-in-commons include an unconsolidated equity investment, as discussed in Note 1, as well two other entities not included in the financial statements. The amount due represents receivables from the former Trolley Barn entity that were transferred to the tenancy-in-common entities on June 8, 2021.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021

5. Related Party Transactions (concluded):

Included in amounts due to related parties and affiliates is \$335,766 and \$593,983 payable to Cranston Brewery LLC at April 30, 2022 and 2021, respectively. Cranston Brewery LLC is an affiliate but not owned by the Company. The amount due represents its funding of operations for the now-dissolved Trolley Barn Associates (50%).

Included in amounts due to related parties and affiliates is \$417,050 and \$417,050 payable to WMC 1, LLC at April 30, 2022 and 2021, respectively. WMC 1, LLC is owned by a director of the Company. The amount due represents WMC 1, LLC's share of a distribution from Connolly Bronx, LLC, a 75% owned subsidiary of the Company.

Included in amounts due to related parties and affiliates is \$566,606 and \$-0- payable to the Cranston, RI School and Restaurant tenancies-in-common at April 30, 2022 and 2021, respectively. These tenancies-in-common are unconsolidated equity investments, as discussed in Note 1. The amount due represents cash flow received by CP Associates, LLC, a 50%-owned consolidated subsidiary of the Company, that are attributed to the operations of the tenancy-in-common entities, which were created on June 8, 2021.

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 \$224,406 and \$222,338 for the years ended April 30, 2022 and 2021, respectively.

7. Income Taxes:

The provision (benefit) for income taxes consists of:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|--------------------|--------------------|
| Current Federal income taxes | \$1,612,218 | \$-0- |
| Current State income taxes | 575,630 | 164,747 |
| Deferred Federal income taxes | 2,110,248 | 871,021 |
| Deferred State income taxes | <u>502,440</u> | <u>207,386</u> |
| | <u>\$4,800,536</u> | <u>\$1,243,154</u> |

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

| | | |
|---|----------------------|----------------------|
| Tax effect of net operating loss carry-forwards | \$-0- | \$812,771 |
| Basis in fixed assets | (2,770,228) | (2,114,925) |
| AMT credits | 9,571 | 9,571 |
| Rent receivable | (163,998) | (181,197) |
| Investments in partnerships | (2,061,715) | (1,193,670) |
| Unrealized (gain) loss on derivatives | (72,404) | 158,841 |
| Impairment loss | 307,752 | 307,752 |
| Other | <u>15,753</u> | <u>78,277</u> |
| | <u>\$(4,735,269)</u> | <u>\$(2,122,580)</u> |

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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7. Income Taxes (concluded):

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>2022</u> | <u>2021</u> |
|---|--------------------|--------------------|
| Federal statutory rate (21.0%) | \$4,301,355 | \$1,502,545 |
| State tax – net of Federal effect | 575,630 | 164,747 |
| Losses (income) attributable to noncontrolling interests in pass-through entities | (158,138) | (169,880) |
| Non-taxable loan forgiveness income | (462,370) | (462,358) |
| Other | <u>544,059</u> | <u>208,100</u> |
| Provision (benefit) for income taxes | <u>\$4,800,536</u> | <u>\$1,243,154</u> |

8. Leases of Property:

Lessee Arrangements:

On April 9, 2022, the Company sold substantially all of the net assets of its Dunkin' Donuts stores. The Company leased four buildings for its Dunkin' Donuts stores. With the sale, the Company no longer has any significant lessee arrangements.

Lessor Arrangements:

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

Rental income for the years ended April 30, by type of tenant, follows:

| | <u>2022</u> | <u>2021</u> |
|-------------|-------------------|-------------------|
| Residential | \$13,503,484 | \$13,182,505 |
| Commercial | <u>18,706,746</u> | <u>19,185,186</u> |
| | \$32,210,230 | \$32,367,691 |

Minimum future rentals to be received on non-cancellable commercial real estate leases as of April 30, 2022 are as follows:

| <u>Year Ending April 30,</u> | |
|------------------------------|---------------------|
| 2023 | \$12,770,149 |
| 2024 | 11,038,697 |
| 2025 | 8,803,126 |
| 2026 | 7,250,110 |
| 2027 | 5,920,278 |
| Thereafter | <u>16,463,322</u> |
| Total | <u>\$62,245,682</u> |

The following table shows the location, general character, ownership status, and cost of the materially important physical properties of the Company.

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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8. Leases of Property (continued):

Consolidated Subsidiaries – Commercial Properties:

| <u>Company Managed</u> | <u>Location of Properties</u> | <u>Use</u> | <u>Available Space or Facilities and Major Tenants</u> | <u>Ownership Status</u> | <u>Cost</u> |
|----------------------------|-----------------------------------|-----------------------------|--|--|--------------|
| X | Edinburg, TX | Shopping Center | 485,474 sq. ft. JC Penney 21% Academy Sports 16% Burlington Coat Factory 17%, Effective rent per sq. ft. occupied, exclusive of JC Penney (JC Penney owns its building) is \$10.61, 97% occupied | 100% owned by a subsidiary of the Company, except JC Penney building. | \$54,370,666 |
| X | West Springfield, MA | Shopping Center | 144,350 sq. ft. Price Rite 28% Big Lots 21% Harbor Freight 12%, Effective rent per sq. ft. occupied is \$10.12, 97% occupied | 100% owned by a subsidiary of the Company. | 8,240,339 |
| X | North Adams, MA | Shopping Center | 131,691 sq. ft. Steeple City Cinema 20% (Company owned); Steeple City Liquor 11% (Company owned); Planet Fitness 8%, Effective rent per sq. ft. occupied – net of 41,067 sq. ft. Company owned \$4.39, 76% occupied | 100% owned by a subsidiary of the Company. | 7,637,099 |
| X | Plainfield, CT | Strip Shopping Center | 60,154 sq. ft. Big Y 76%, Effective rent per sq. ft. occupied is \$11.99, 93% occupied | 100% owned by a subsidiary of the Company. | 5,073,618 |

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8. Leases of Property (continued):

Consolidated Subsidiaries – Commercial Properties:

| <u>Company Managed</u> | <u>Location of Properties</u> | <u>Use</u> | <u>Available Space or Facilities and Major Tenants</u> | <u>Ownership Status</u> | <u>Cost</u> |
|------------------------|-------------------------------|-----------------------|---|--|-------------|
| X | New Orleans, LA | Strip Shopping Center | 37,671 sq. ft. Marshalls 53%, Petco 33%, Effective rent per sq. ft. occupied is \$22.75, 100% occupied | 100% owned by a subsidiary of the Company. | 9,201,659 |
| | Cranston, RI | Shopping Center | 255,365 sq. ft. Stop & Shop 26%, Burlington Coat Factory 18%, Edge Fitness 14%, Effective rent per sq. ft. occupied is \$14.85 95% occupied | 50% owned by a subsidiary of the Company. | 35,513,870 |
| | Cranston, RI | Police Station | 60,000 sq. ft. Leased to City of Cranston, Effective rent per sq. ft. occupied is \$17.75 100% occupied | 50% owned by a subsidiary of the Company. | 10,132,902 |
| X | Lubbock, TX | Shopping Center | 160,531 sq. ft. Mardel 25%, TJ Maxx 19%, Effective rent per sq. ft. occupied is \$10.39, 70% occupied | 2.0% owned by a subsidiary of the Company. | 6,258,420 |

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8. Leases of Property (continued):

Consolidated Subsidiaries – Commercial Properties:

The properties listed above contain approximately 1,346,912 rentable sq. ft., of which approximately 120,626 sq. ft., or approximately 9%, was vacant at April 30, 2022. Over the next 10 years, 92 of the current 94 leases will expire as follows:

| <u>Year Ended</u> | <u>Number of Leases</u> | <u>Sq. Ft.</u> | <u>Base Rent</u> | <u>Percentage of Base Rent</u> |
|-------------------|-------------------------|----------------|------------------|--------------------------------|
| 4/30/23 | 14 | 153,274 | \$1,299,827 | 9.56% |
| 4/30/24 | 13 | 243,161 | \$3,076,428 | 22.63% |
| 4/30/25 | 13 | 177,561 | \$1,838,415 | 13.52% |
| 4/30/26 | 8 | 89,565 | \$1,027,535 | 7.56% |
| 4/30/27 | 19 | 88,253 | \$1,678,551 | 12.35% |
| 4/30/28 | 6 | 85,399 | \$1,007,761 | 7.41% |
| 4/30/29 | 7 | 102,187 | \$893,404 | 6.57% |
| 4/30/30 | 2 | 52,625 | \$698,525 | 5.14% |
| 4/30/31 | 2 | 987 | \$23,688 | 0.17% |
| 4/30/32 | 8 | 92,747 | \$1,608,934 | 11.83% |

Total rental income of these properties for the year ended April 30, 2022 was \$17,111,943, of which \$3,536,160 is allocated for reimbursement of real estate taxes, common area expenses, and insurance expenses.

The Company does not have any individual tenants that account for 5% or more of the Company's revenues.

Consolidated Subsidiaries – Residential Properties:

| <u>Company Managed</u> | <u>Location of Properties</u> | <u>Use</u> | <u>Available Space or Facilities and Major Tenants</u> | <u>Ownership Status</u> | <u>Cost</u> |
|------------------------|-------------------------------|------------|---|--|-------------|
| X | Rockland, MA | Apartments | 204 units, low to moderate income, 94% occupied, effective sq. ft. rent - \$26.10 | .01% owned by a 75% owned subsidiary of the Company. | 27,046,652 |
| X | Somerville, MA | Apartments | 501 units, low to moderate income, 96% occupied, effective sq. ft. rent - \$26.21 | .0049% owned by a 75% owned subsidiary of the Company. | 51,399,992 |

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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8. Leases of Property (continued):

Non-Consolidated Subsidiaries:

| <u>Company Managed</u> | <u>Location of Properties</u> | <u>Use</u> | <u>Available Space or Facilities and Major Tenants</u> | <u>Ownership Status</u> | <u>Cost</u> |
|------------------------|-------------------------------|---|--|--|-------------|
| X | Claymont, DE | Apartments | 208 units, senior housing, 100% sec 8 subsidized, 99% occupied, effective sq. ft. rent - \$24.44 | Nonconsolidated, .01% owned by a 75% owned subsidiary of the Company. | 11,324,337 |
| X | Bronx, NY | Apartments | 99 units, senior housing, 100% sec 8 subsidized, 95% occupied, effective sq. ft. rent - \$38.01 | Nonconsolidated, .005% owned by a 75% owned subsidiary of the Company. | 33,447,508 |
| | Dover Township, NJ | Shopping Center | 108,084 sq. ft. Stop & Shop 52% Dollar Tree 9% Plus Outparcels | 50% owned by a subsidiary of the Company. | 14,812,108 |
| | Cranston, RI | Excess Land (School sold April 7, 2022) | Land (2.96 acres) | Tenancy-in-common (50% owned). | 1,128,872 |
| | Cranston, RI | Restaurant | Texas Roadhouse Land Lease 100% occupied | Tenancy-in-common (50% owned). | 229,417 |
| | Cranston, RI | Land for Development | Land (6.61 acres) | Tenancy-in-common (50% owned). | 737,279 |

In addition to the materially important physical properties of the Company listed above, the Company owns several other properties that are being developed or may be developed in the future as opportunities arise. Many of these other properties involve ground lease or build-to-suit deals. In some cases, the land being developed is solely for a single entity, in other cases the land is primarily for a single entity with some excess land retained for future development, and in other cases the land is banked for future potential development. Generally, the Company looks to sell the properties within twelve months after development is completed.

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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8. Leases of Property (continued):

| <u>Location of Properties</u> | <u>Use</u> | <u>Anticipated Completion Date</u> | <u>Cost Incurred to Date</u> |
|----------------------------------|---|--|------------------------------|
| Bellfort, TX | Single tenant build-to-suit | FY 2023 | 5,342,603 |
| Magnolia, TX | Single tenant build-to-suit | FY 2023 | 5,153,696 |
| Little Ferry, NJ | Single tenant building | FY 2023 | 11,071,191 |
| Del Valle, TX | Single tenant build-to-suit plus ground lease | FY 2023 | 4,899,925 |
| Houston, TX (West Lake) | 22.47 acres of land – can support 120,000 sq. ft. development | FY 2023 | 10,079,913 |
| Montgomery, TX | 17.09 acres of land plus strip mall – can support 130,000 sq. ft. development | FY 2023 / 2024 | 10,722,591 |
| Katy, TX (Cinco Ranch) | 4.19 acres of land – can support 30,000 sq. ft. development | FY 2023 | 3,348,039 |
| Austin, TX (Easton Park West) | 5.20 acres of land – can support 25,000 sq. ft. development | FY 2023 | 2,254,373 |
| Austin, TX (Easton Park) | Single tenant build-to-suit plus 8.55 acres of land – can support 50,000 sq. ft. development | FY 2023 | 8,762,402 |
| Spring, TX (Glennloch) | 2.97 acres of land – can support 12,000 sq. ft. development | FY 2023 | 642,608 |
| Humble, TX | 2.62 acres of land – can support 10,000 sq. ft. development | FY 2023 | 1 |

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED APRIL 30, 2022 AND 2021**

8. Leases of Property (continued):

| <u>Location of Properties</u> | <u>Use</u> | <u>Anticipated Completion Date</u> | <u>Cost Incurred to Date</u> |
|---|--|--|------------------------------|
| Buda, TX | 10.90 acres of land – can support 35,000 sq. ft. development | FY 2023 | 3,865,320 |
| All Other Properties Held | | | <u>330,221</u> |
| Total cost of developed properties and property under construction (excludes non-consolidated subsidiaries) | | | <u>\$281,348,100</u> |

The Company also owns property it is currently holding for sale. The properties include three single-tenant properties in Wylie, TX, Prosper, TX, and Horsham, PA. The cost of these properties as of April 30, 2022 was \$9,474,267.

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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FOR THE YEARS ENDED APRIL 30, 2022 AND 2021**

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>2022</u> | <u>2021</u> |
|---------------------------|--------------|--------------|
| Assets | \$10,431,155 | \$10,766,151 |
| Liabilities | 20,256,538 | 22,838,030 |
| Members' deficit | (9,825,383) | (12,071,879) |
| Revenue | 2,766,262 | 2,644,874 |
| Operating expenses | 1,287,469 | 1,335,375 |
| (Gain) Loss on derivative | (2,178,747) | (1,676,009) |
| Interest expense | 798,448 | 821,871 |
| Net income (loss) | 2,859,092 | 2,163,637 |

Dover's major tenant is Stop & Shop, which provided 50% and 54% of the total revenue in the years ended April 30, 2022 and 2021, 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, 2022 or 2021.

**FIRST HARTFORD CORPORATION AND SUBSIDIARIES
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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, Cumberland Farms Inc., and Wild Fork Foods in certain geographic areas. Summary financial information for the two reportable segments is as follows:

| | <u>2022</u> | <u>2021</u> |
|-----------------------------|---------------------|---------------------|
| Revenues: | | |
| Real Estate Operations | \$77,763,796 | \$88,361,223 |
| Fee for Service | <u>2,528,050</u> | <u>2,313,000</u> |
| Total | <u>\$80,291,846</u> | <u>\$90,674,223</u> |
| Operating Cost and Expense: | | |
| Real Estate Operations | \$55,040,247 | \$67,822,716 |
| Fee for Service | 2,722,593 | 2,948,447 |
| Administrative Expenses | <u>8,051,628</u> | <u>6,777,135</u> |
| Total | <u>\$65,814,468</u> | <u>\$77,548,298</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 \$222,080 in 2022 and \$587,322 in 2021 and receivables of \$705,364 in 2022 and \$945,533 in 2021.

12. Purchases of Real Estate:

Lewisville, TX - Property Purchase: On May 14, 2021, the Company purchased a property in Lewisville, TX for \$1,387,413 including closing costs. This purchase was financed with proceeds from a new loan of \$1,162,413 and working capital of \$225,000. The Company built a single entity build-to-suit on this land. Key terms of the loan were as follows:

Loan Amount: \$1,650,000

Maturity Date: May 14, 2028

Interest Rate: The lower of a) the Prime Rate, as defined, plus 1.00% or b) the Maximum Lawful Rate, but in no case lower than 4.25%, through May 14, 2023 (the “Interest Only Period Expiration Date”); thereafter until maturity, the lower of a) the Prime Rate, fixed as of May 12, 2023, plus 1.00% or b) the Maximum Lawful Rate, but in no case lower than 4.25%.

Payments: Interest only payable monthly up until the “Interest Only Period Expiration Date” of May 14, 2023. Thereafter until maturity, principal and interest payable monthly using a 25-year amortization.

Guarantor: The Company (Corporate).

The Company sold this property and repaid the loan on April 1, 2022.

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12. Purchases of Real Estate (continued):

Prosper, TX - Property Purchase: On July 16, 2021, the Company purchased a property in Prosper, TX for \$1,943,531 including closing costs. This purchase was financed with proceeds from a new loan of \$1,553,486, cash of \$315,045, and working capital of \$75,000. The Company is going to build a single entity build-to-suit on this land. Key terms of the loan are as follows:

Loan Amount: \$2,225,000
Maturity Date: July 16, 2028
Interest Rate: The lower of a) the Prime Rate, as defined, plus 1.00% or b) the Maximum Lawful Rate, but in no case lower than 4.25%, through July 16, 2023 (the “Interest Only Period Expiration Date”); thereafter until maturity, the lower of a) the Prime Rate, fixed as of July 17, 2023, plus 1.00% or b) the Maximum Lawful Rate, but in no case lower than 4.25%.
Payments: Interest only payable monthly up until the “Interest Only Period Expiration Date” of July 16, 2023. Thereafter until maturity, principal and interest payable monthly using a 25-year amortization.
Guarantor: The Company (Corporate).

Wylie, TX – Land Purchase: On October 1, 2021, the Company purchased a parcel of land in Wylie, TX for \$3,952,408 including closing costs. The Company subdivided this lot and is overseeing construction of a single-tenant building on one lot, with the other lot to be held for future investment opportunities. This purchase was financed with advances from a new construction loan (\$1,187,225), a new land loan (\$1,427,896), utilization of one of the Company’s lines of credit (\$1,250,000), and working capital. Key terms of the construction loans, which in total amount to \$3,408,000, are as follows:

| | <u>Construction Loan</u> | <u>Land Loan</u> |
|----------------|---|---|
| Loan Amount: | \$1,980,000 | \$1,428,000 |
| Maturity Date: | April 1, 2023 | April 1, 2023 |
| Interest Rate: | 2.75% plus One Month ICE LIBOR rate, as defined, with a floor of 3.75% through the maturity date; 12.0% thereafter. | 2.75% plus One Month ICE LIBOR rate, as defined, with a floor of 3.75% through the maturity date; 12.0% thereafter. |
| Payments: | Interest only payable monthly with full principal payment due at maturity. No prepayment allowed prior to completion of the Improvements, as defined. | Interest only payable monthly with full principal payment due at maturity. No prepayment penalty. |
| Guarantee: | The Company (Corporate). | The Company (Corporate). |

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12. Purchases of Real Estate (concluded):

Magnolia, TX – Land Purchase: On October 18, 2021, the Company purchased 2.38 acres of land in Magnolia, TX for \$2,366,899 including closing costs. This purchase was financed with proceeds from a new loan of \$1,405,179, line of credit utilization of \$875,000, and working capital of \$86,720. The Company is going to build a single entity build-to-suit on this land. Key terms of the loan are as follows:

Loan Amount: \$5,660,000
Maturity Date: October 18, 2024
Interest Rate: The lower of a) the Prime Rate, as defined, plus 0.50%, but in no case lower than 3.50% or b) the Maximum Lawful Rate.
Payments: Interest only payable monthly up until the “Interest Only Period Expiration Date” of March 18, 2023. Thereafter until maturity, principal and interest totaling \$26,392 payable monthly using a 30-year amortization.
Guarantor: The Company (Corporate).

Houston, TX (Bellfort) – Land Purchase: On December 14, 2021, the Company purchased a parcel of land in Houston, TX for \$3,940,000 plus closing costs. The Company plans on building two separate single-tenant buildings on this property. This purchase was financed with proceeds from a new construction loan (\$2,429,743), utilization of the one of the Company’s lines of credit (\$1,620,000), and working capital. Key terms of the construction loan are as follows:

Loan Amount: \$8,200,000
Maturity Date: December 14, 2024
Interest Rate: 2.75% plus One Month AMERIBOR@30T rate, as defined, with a floor of 3.75% through the maturity date; 12.0% thereafter.
Payments: Interest only payable monthly through June 5, 2023; thereafter, monthly payments of \$14,697 applied first to interest and the remainder to principal with full remaining principal payment due at maturity. No prepayment allowed prior to completion of the Improvements, as defined.
Guarantee: The Company (Corporate).

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13. Contingencies:

234 Realty, LLC and 287 Realty, LLC v. First Hartford Realty Corporation

On June 20, 2019, 234 Realty, LLC and 287 Realty, LLC (the “Paolino Entities”) filed suit in Providence County Superior Court (the “Court”) against the Company for breach of contract alleging the Company failed to pay fees allegedly due to the Paolino Entities for services allegedly rendered in facilitating real estate transactions between the Company and two other parties, CVS Pharmacy, Inc. (“CVS”) and Cumberland Farms, Inc. (“CFI”) (collectively, the “Paolino Claims”). The Company’s management denies the Paolino Claims based upon, among other legal and factual bases: (1) the Paolino Entities’ lack of proper licensure to collect fees from the Company for facilitating the real estate transactions underlying the Paolino Claims, (2) applicable state laws barring the unlicensed Paolino Entities from collecting fees from the Company for facilitating the real estate transactions underlying the Paolino Claims, (3) the statute of limitations bars certain of the Paolino Claims, and (4) even if the Company owes certain fees to the Paolino Entities despite their lack of licensure and tardy filing, the agreements reached between the Company and the Paolino Entities significantly reduce the fee amounts to which the Paolino Entities could be entitled, such that the Company believes the value of the Paolino Claims, to the extent lawfully compensable at all, are approximately \$2,800,000.

That said, on June 21, 2021 the Court-appointed Special Master issued a Second Interim Report calculating the Paolino Entities’ potential damages (and the Company’s potential exposure) concerning the CVS transactions to be no less than \$6,994,784. The Special Master’s Report failed to take into consideration modifications and other agreements between the Company and the Paolino Entities concerning fees, as well as other factors that inflated the Special Master’s calculation to \$6,994,784. The Company’s accounting statements will support the approximately \$2,800,000 amount the Company believes to be the maximum it could liable for related to CVS transactions if the Paolino Claims are viable. Separately, the Company’s potential exposure for payment to the Paolino Entities on Cumberland Farms transactions is approximately \$400,000. Amounts accrued for this exposure are included in Accounts payable in the Consolidated Balance Sheet.

The Paolino Entities are also seeking interest on the unpaid fees, and attorneys’ fees associated with the dispute. Although the Company has asserted defenses to such claims, the exposure is approximately \$1,000,000 (interest accrual) and \$1,500,000 (attorneys’ fees), which amounts will increase over time. The interest accrual figure is necessarily dependent upon the Court’s ultimate determination of underlying fees, if any, due to the Paolino Entities. As a result, the total exposure from the Paolino Claims ranges from approximately \$0 to \$7,294,784, exclusive of interest and legal fee claims, with the approximate amount of \$2,800,000 being the more likely outcome if the Paolino Parties are successful at the trial court level.

On June 25, 2021, the Company received the Court’s Decisions on the Paolino Entities’ Motions to Dismiss all of the Company’s counterclaims, which counterclaims seek to claw back payments made by the Company to the Paolino Entities during the time period 2004 through 2019. The Court granted, in part, the Paolino Entities’ Motions to Dismiss the Company’s counterclaims, leaving the Company with two (2) pending counterclaims to recoup fees of approximately \$13,000,000 previously paid to the Paolino Entities. The Company may file a Motion for Reconsideration of the Court’s June 25, 2021 Decision in favor of the Paolino Entities due to errors of law; if successful, the parties’ likelihood of success will change dramatically, with the Paolino Entities facing significant disgorgement counterclaims due to, among other bases, their lack of licensure. The Company’s Motion to Amend Answer and Counterclaim is pending before the Court and seeks to add additional allegations, defenses, and Counterclaims against 287 Realty.

On December 9, 2021, the Court decided the Company’s Motion for Summary Judgment seeking to dismiss all of the Paolino Entities’ claims against the Company based upon, among other bases, the Paolino Entities’ lack of real estate broker licensure. The Court dismissed the Paolino Entities’ False Light claim, but denied the Company’s Motion for Summary Judgment as to the remaining 287 Realty claims such that they still stand.

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13. Contingencies (continued):

Based on the general course of the litigation and case volume in Providence County Superior Court, as well as the significant delays caused by the COVID-19 pandemic, these cases will not likely be reached for trial until 2023.

The Company cannot make a definitive determination at this time as to the Company's likelihood of success at trial on the Paolino Claims or the Company's Counterclaims, especially due to the Company's pending Motion to Amend and potential Motions for Reconsideration. If the Paolino Entities prevail at the trial court level, an award of approximately \$3,200,000 is likely. Notwithstanding, the Company has a reasonable likelihood of success on appeal concerning the licensure and other legal issues decided unfavorably by the trial court, such that any judgment in favor of the Paolino Parties has a reasonable likelihood of being vacated on appeal. The appellate process would likely take more than two years.

Other Proceedings

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 had stated that it intended to seek a civil monetary fine of up to \$300,000 and agreement on updating the Company's employee training certifications and related paperwork on our Operations & Maintenance (O&M) plan.

On November 25, 2020, the Commonwealth of Massachusetts and the Company entered into a settlement where the Company did not admit to any liability or wrongdoing. As part of the settlement, the Company agreed to pay \$250,000 in civil penalties, of which \$100,000 was paid in January 2021 and another \$100,000 was paid in January 2022. The balance of the civil penalty is suspended and will be waived if the Company complies with certain conditions, which includes completion of asbestos training and certification and submission of an O&M plan. The Company recorded an expense of \$200,000 for this settlement in the year ended April 30, 2021.

The Company is also involved in other 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.

On March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of this filing, our properties remain open, subject to regulated or reduced store hours. We cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2023 and beyond.

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14. Subsequent Events:

The Company has evaluated for subsequent events through August 12, 2022, the date the financial statements were issued.

West Springfield, MA – Refinance: On May 16, 2022, the Company refinanced its mortgage loan on its property in West Springfield, MA. The prior loan, which had a balance of \$9,891,738, was replaced by another loan of \$12,000,000. The new loan has a fixed interest rate of 4.50% and matures on May 16, 2032. Principal and interest shall be amortized over 360 months and paid monthly with the remaining balance due on the maturity date. A prepayment premium of 3.0%, 2.0%, and 1.0% is payable if any portion of the loan is prepaid in years 1, 2, and 3-10, respectively. The Company is a guarantor on the loan.

Wylie, TX – Partial Sales of Land: On June 3, 2022, the Company sold a 3.00-acre parcel of land in Wylie, TX for \$2,088,208 (approximate cost of \$2,615,180). Net proceeds from the sale were primarily used to pay down one of the Company's lines of credit. Also, on July 28, 2022, the Company sold another 0.15 acre lot of this property for \$10,000.

North Adams, MA – Loan Payoff: On June 23, 2022, the Company paid \$3,000,000 to Protective Life Insurance Company to settle its mortgage loan on its North Adams, MA shopping center. The loan had a principal balance of \$6,780,042 at the time of settlement.

Edinburg, TX – Refinance: On June 27, 2022, the Company paid \$6,733,434 to Protective Life Insurance Company to settle its mortgage loan on its Edinburg, TX shopping center. The loan, which had a principal balance of \$10,520,990, was replaced by a term loan of \$6,732,800. The new mortgage loan has a five-year term and an interest rate equal to the Prime Rate plus 0.50% per annum (but in no event will the resulting rate be less than 3.50%). Principal payments of \$1,346,560 are due annually and any amounts received related to a prepayment and related partial release of the collateral will be applied to the next principal payment. Interest on outstanding principal balances is payable monthly. There are no prepayment penalties.

Plainfield, CT – Refinance: On July 21, 2022, the Company refinanced its mortgage loan on its property in Plainfield, CT. The prior loan, which had a balance of \$5,500,752, was replaced by another loan of \$6,240,000. The new loan has a fixed interest rate of 4.625% and matures on May 1, 2032. Principal and interest shall be amortized over 360 months and paid monthly with the remaining balance due on the maturity date. A prepayment premium of 3.0%, 2.0%, and 1.0% of the original amount of the note is payable if any portion of the loan is prepaid in years 1-2, 3-4, and 5-10, respectively. The Company is a guarantor on the loan.

North Richland Hills, TX – Land Purchase: On August 4, 2022, the Company purchased a parcel of land in North Richland Hills, TX for \$892,980 plus closing costs. The Company plans on building a single-tenant building on this property. This purchase was financed with proceeds from a new construction loan (\$733,468) and working capital. Key terms of the construction loan are as follows:

| | |
|----------------|---|
| Loan Amount: | \$1,450,000 |
| Maturity Date: | February 4, 2024 |
| Interest Rate: | 2.75% plus One Month AMERIBOR@30T rate, as defined, with a floor of 3.75% through the maturity date; 12.0% thereafter. |
| Payments: | Interest only payable monthly until maturity, at which time all principal and interest is due. No prepayment allowed prior to completion of the Improvements, as defined. |
| Guarantee: | The Company (Corporate). |

[End of Financial Statements and Notes thereto.]