

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**

**INDEPENDENT AUDITORS' REPORTS  
REQUIRED BY THE UNIFORM GUIDANCE**

**YEAR ENDED DECEMBER 31, 2017**

# CIVIC BUILDERS, INC. AND SUBSIDIARIES

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Civic Builders, Inc. and Subsidiaries

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Civic Builders, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Civic Builders, Inc. and Subsidiaries as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2018, on our consideration of Civic Builders, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Civic Builders, Inc. and Subsidiaries' internal control over financial reporting and compliance.

*Lutz + Carr, LLP*

New York, New York  
April 25, 2018

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017**

**Assets**

## Current Assets

Cash and cash equivalents (Notes 1b and 13)	\$ 5,374,214
Cash restricted by Board of Directors (Notes 1b and 13)	1,000,000
Restricted cash (Notes 10, 13 and 14)	1,528,979
Unrestricted investments (Notes 1c, 4 and 13)	12,060,481
Restricted investments (Notes 1c, 4, 13 and 14)	295,319
Unconditional promises to give (Notes 1g and 3)	
Unrestricted	40,199
Restricted	1,042,857
Other assets	1,130,913
Construction reimbursement receivable (Note 6)	115,342
Notes receivable (Note 8)	276,953
Total Current Assets	<u>22,865,257</u>

## Non-Current Assets

Restricted cash (Notes 10, 13 and 14)	1,661,868
Restricted investments (Notes 1c, 4, 13 and 14)	6,789,557
Other assets	1,998,348
Investments in New Markets Tax Credit entities (Note 7)	7,615
Real estate, at cost, net of accumulated amortization and depreciation (Notes 1d, 5 and 6)	24,247,993
Notes receivable (Note 8)	15,917,407
Mortgage escrow deposit (Note 10)	500,000
Deferred financing costs (Notes 1e)	148,133
Deferred leasing costs, net of accumulated amortization of \$325,962 (Note 1e)	484,050
Office improvements and equipment, at cost, net of accumulated depreciation (Note 1f)	32,082
Total Non-Current Assets	<u>51,787,053</u>

**Total Assets**\$74,652,310**Liabilities and Net Assets**

## Liabilities

## Current Liabilities

Accounts payable and other accrued expenses	\$ 320,747
Grants payable (Notes 1h)	840,000
Construction accounts payable	2,664,760
Fiscal agent (Note 15)	50,000
Loans payable (Note 10)	756,832
Total Current Liabilities	<u>4,632,339</u>

## Non-Current Liabilities

Loans payables (Notes 10)	28,196,939
Deferred rent (Note 1i)	124,284
Tenants' security deposits and reserves	2,570,717
Total Non-Current Liabilities	<u>30,891,940</u>

## Total Liabilities

35,524,279

## Commitments and Contingencies (Notes 5, 7, 10, 11 and 12)

## Net Assets

Unrestricted	
Operating	27,776,328
Board-designated cash reserve (Note 1b)	1,000,000
Total Unrestricted	<u>28,776,328</u>
Temporarily restricted (Note 2)	<u>10,351,703</u>
Total Net Assets	<u>39,128,031</u>

**Total Liabilities and Net Assets**\$74,652,310

**See notes to consolidated financial statements.**

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2017**

**Changes in Unrestricted Net Assets**

Revenue, Gains and Other Support (Excluding Public Support)	
Development fees (Notes 6 and 7)	\$ 368,912
Rental income (Note 9)	5,738,193
Interest income	861,526
Unrealized loss on investment	(6,965)
Sponsor fees (Note 7)	2,000,000
Management fees (Note 7)	<u>400,723</u>
Total Revenue, Gains and Other Support (Excluding Public Support and Gain on Sale of Property)	<u>9,362,389</u>
Expenses	
Program Services	
Rental and project development	<u>10,216,336</u>
Supporting Services	
Management and general	513,315
Fundraising	<u>176,216</u>
Total Supporting Services	<u>689,531</u>
Total Expenses	<u>10,905,867</u>
Decrease in Unrestricted Net Assets (Excluding Public Support and Gain on Sale of Property)	<u>(1,543,478)</u>
Public Support	
Contributions (Notes 1g and 3)	1,264,941
Net assets released from restrictions	<u>2,855,791</u>
Total Public Support	<u>4,120,732</u>
Increase in Unrestricted Net Assets (Including Public Support Excluding Gain on Sale of Property)	2,577,254
Gain on Sale of Property (Note 5)	<u>7,950,622</u>
Increase in Unrestricted Net Assets	<u>10,527,876</u>

**Changes in Temporarily Restricted Net Assets**

Contributions (Notes 1g and 3)	1,843,858
Interest	71,280
Unrealized loss on investment	(12,499)
Net assets released from restrictions	<u>(2,855,791)</u>
Decrease in Temporarily Restricted Net Assets	<u>(953,152)</u>
Increase in net assets	9,574,724
Distribution to Civic Builders, Inc. (non-Civic entities)	236
Net assets, beginning of year	<u>29,553,071</u>
Net Assets, End of Year	<u><u>\$39,128,031</u></u>

**See notes to consolidated financial statements.**

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2017**

**Cash Flows From Operating Activities**

Increase in net assets	\$ 9,574,724
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	917,612
Unrealized loss on investment	19,464
Amortized interest	47,326
Gain on sale of property - net of debt forgiveness	(7,950,622)
Bad debt	5,407
(Increase) decrease in:	
Unconditional promises to give	111,642
Construction reimbursement receivable	343,866
Other assets	(2,516,858)
Increase (decrease) in:	
Accounts payable and other accrued expenses	90,513
Grants payable	840,000
Deferred rent	(23,098)
Tenants' security deposits and reserves	23,969
Fiscal agent	(200,000)
Net Cash Provided By Operating Activities	<u>1,283,945</u>

**Cash Flows From Investing Activities**

Purchase of investments	(15,809,761)
Redemption of investments	12,531,248
Net proceeds from sale of property	15,117,833
Purchase of real estate and construction costs	(11,122,928)
Notes receivable	807,401
Office improvements, equipment and deferred leasing costs	(140,817)
Construction accounts payable	2,301,188
Net Cash Provided By Investing Activities	<u>3,684,164</u>

**Cash Flows From Financing Activities**

Proceeds from loans	5,853,931
Deferred financing costs	(204,775)
Mortgage escrow deposit	(500,000)
Repayments of loans	(14,631,067)
Investment from Civic Builders, Inc. (non-Civic entities)	(4,000)
Distribution to Civic Builders, Inc. (non-Civic entities)	236
Restricted cash	2,099,310
Net Cash Used By Financing Activities	<u>(7,386,365)</u>

Net decrease in cash and cash equivalents	(2,418,256)
Cash and cash equivalents, beginning of year	<u>8,792,470</u>

<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 6,374,214</u></b>
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**See notes to consolidated financial statements.**

## CIVIC BUILDERS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

#### **Note 1 - Organization and Summary of Significant Accounting Policies**

##### **a - Organization**

Civic Builders, Inc. ("Civic") is a not-for-profit facilities developer and lender that provides real estate solutions for charter schools. Civic relieves charter schools of the responsibility for planning, developing and financing facilities, enabling charter school administrators to focus time and resources on the important work of educating children. As a mitigator of facilities risk and uncertainty, Civic helps create an environment that attracts new government, philanthropic and commercial funds for the creation of new charter school real estate.

The accompanying consolidated financial statements include the accounts of Civic Builders, Inc. and its wholly owned subsidiaries: Civic Properties, Inc. - Longfellow; Civic Builders Property Holding Corp.; Civic Hunts Point Ave Charter Corp; 1818 Civic, LLC; 35 W. 124<sup>th</sup> Street, LLC; Civic St. Nicholas, LLC; Civic Lafayette Ave, LLC; Civic 732 Henry, LLC; Civic GW, LLC; Civic RI PRI Fund, LLC; Civic RI Broad St Sr Lender LLC; Civic RI Broad St Jr Lender LLC; Civic RI Lonsdale Ave Jr Lender LLC; Civic RI Central Falls Charter I LLC; Civic Fund Manager LLC; Civic Charter Lender, Inc.; Civic NYC Fund, Inc.; Civic 411 Wales Corporation; Civic East 156 Street Corporation and certain other wholly owned limited liability companies and corporations that had no assets or liabilities at December 31, 2017 and no activity during that year. All significant intercompany transactions have been eliminated in consolidation.

##### **b - Cash and Cash Equivalents**

For purposes of the statement of cash flows, Civic considers all highly liquid instruments, including money market mutual funds, to be cash equivalents.

Civic's Board of Directors has established a \$1 million board-designated cash reserve.

##### **c - Fair Value Measurements and Investments**

Investments are measured at fair value on a recurring basis. Investments with fair values that are based on quoted market prices in active markets are classified within Level 1.

Interest, dividends and gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.



**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

d - Real Estate

Real estate is stated at cost and is depreciated using the straight-line method over its estimated useful life. Leasehold improvements are amortized using the straight-line method over the term of the lease agreement.

e - Deferred Financing and Leasing Costs

Costs incurred in connection with obtaining financing and entering into leases with tenants are deferred and amortized using the straight-line method over the life of the applicable agreement. The deferred financing costs will reduce the carrying amount of debt when certain mortgage funds have been received.

f - Office Improvements and Equipment

Office improvements and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset or the term of the lease agreement.

g - Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to Civic, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Civic uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

h - Grants Awarded

Grants awarded are recognized as expenses in the period the award is made. Grants payable later than one year from the end of the fiscal year are discounted to present value using a discount rate of 3%. At December 31, 2017, grants payable are expected to be paid within one year.

i - Deferred Rent

Office rent expense is recorded on a straight-line basis over the life of the lease (Note 11a). The difference between the straight-line amount and the amount actually paid during the year is recorded as a reduction to deferred rent and rent expense in the accompanying financial statements.

# CIVIC BUILDERS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

### Note 1 - Organization and Summary of Significant Accounting Policies (continued)

#### j - Interest-Rate Swaps

Two Civic subsidiaries use interest-rate swap agreements for the purpose of managing interest rate risks. The interest-rate swap agreements will be used to convert the Civic subsidiaries' floating rate long-term debt to a fixed rate (Note 12). The related liability or asset will be reported at fair value in the statement of financial position, and unrealized gains or losses will be included in the statement of activities.

#### k - Financial Statement Presentation

Civic reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

#### l - Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

#### m - Tax Status

Civic and Civic Hunts Point Ave Charter Corp. ("Hunts Point") are not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and have been designated as organizations which are not private foundations.

Civic Properties, Inc.- Longfellow and Civic Builders Property Holding Corp. are not-for-profit organizations exempt from federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

1818 Civic, LLC; 35 W. 124th Street, LLC; Civic St. Nicholas, LLC; Civic Lafayette Ave, LLC; Civic 732 Henry, LLC; Civic GW, LLC; Civic RI PRI Fund, LLC; Civic RI Broad St Sr Lender LLC; Civic RI Broad St Jr Lender LLC; Civic RI Lonsdale Ave Jr Lender LLC and Civic Fund Manager LLC are limited liability companies wholly owned by Civic Builders, Inc. Accordingly, their income and expenses are combined with those of Civic Builders, Inc. for income tax purposes.

Charter I is a single member limited liability company wholly owned by Civic RI PRI Fund, LLC, which is a single member LLC wholly owned by Civic. Charter I is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is a not private foundation.

Civic Charter Lender, Inc. expects to apply for 501 (c) (3) designation in May 2018.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

m - Tax Status (continued)

Civic 411 Wales Corporation ("411 Wales") and Civic East 156 Street Corporation ("East 156") are corporations wholly owned by Civic NYC Fund, Inc. (NYC Fund), a corporation wholly owned by Civic Builders, Inc. 411 Wales, East 156 and NYC Fund expect to apply for 501 (c) (3) designations in May 2018.

n - Subsequent Events

Civic has evaluated subsequent events through April 25, 2018, the date that the financial statements are considered available to be issued.

**Note 2 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are restricted for future programs and periods.

**Note 3 - Unconditional Promises to Give**

Unconditional promises to give are unrestricted and due within one year. Uncollectible promises to give are expected to be insignificant.

At December 31, 2017, approximately 96% of unconditional promises to give were from two donors.

During the year ended December 31, 2017, Civic received 72% of its contributions from three donors.

**Note 4 - Investments**

Investments, which are classified as Level 1 in the fair value hierarchy, consist of the following at December 31, 2017:

	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 7,086,564	\$ 7,084,876
Certificates of deposit	<u>12,067,076</u>	<u>12,060,481</u>
Total	<u>\$19,153,640</u>	<u>\$19,145,357</u>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 5 - Real Estate**

Real estate consists of:

Land	\$ 2,144,985
Building and leasehold improvements	15,690,757
Construction in progress	<u>12,177,446</u>
	30,013,188
Less: Accumulated depreciation and amortization	<u>(5,765,195)</u>
	<u><u>\$24,247,993</u></u>

Real estate includes land and buildings thereon, and improvements to property owned or leased by Civic. All are leased to charter schools.

A Civic subsidiary has purchased land in Cumberland, Rhode Island for the purpose of building a school and leasing it to a charter school. The project is expected to be completed in April 2018. In connection with this project, there remained approximately \$1,644,000 of construction contract commitments.

A Civic subsidiary entered into an agreement to lease property at 411 Wales Avenue, Bronx, NY for the purpose of renovating the property and leasing it to a charter school. In connection with this project, the predevelopment costs have been recorded as construction in progress at December 31, 2017.

On December 15, 2017, a Civic Subsidiary sold its property to a charter school for \$15,250,000 and returned the school's security deposit. In connection with the sale, \$8,699,999 of the subsidiary's loans payable were forgiven by a third party and Civic forgave \$3,104,136 of its loans receivable made to an entity which provided funds to the lender.

**Note 6 - Development Projects**

Projects are primarily developed in a partnership between Civic and a charter school. These projects require an investment from Civic, the charter school, and debt financing for the majority of these investments. Civic earns a development fee on these projects.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 7 - New Markets Tax Credit Transactions**

During 2017, Civic received a total of \$40,000,000 of allocations of New Markets Tax Credits under Section 45D of the Internal Revenue Code of 1986. Eight (three created during 2017) limited liability companies with the primary purpose to serve and provide investment capital for low income communities and low-income persons consistent with the requirements for constituting a qualified community development entity and in accordance with Code Section 45D were utilized ("the Sub-CDEs"). Civic has a 0.01% interest in the Sub-CDEs and allocated the tax credits to them. Civic is the managing member of each of the Sub-CDEs. The operating agreement of each Sub-CDE sets forth the responsibilities of the managing member and the limitations on its authority.

In connection with these transactions, Civic formed certain wholly owned subsidiaries, for the purpose of making loans to various investment funds (Note 8). These investment funds used the proceeds from the Civic loans, together with loans they received from CDFIs along with equity investments from New Markets Tax Credit investors to make qualified equity investments to Sub-CDEs, who in turn made qualified low-income community investments to qualified active low-income community businesses in connection with the construction and development of new charter schools.

In connection with these transactions, Civic earned asset management, incentive, development and sponsor fees.

As defined in the Option Agreements to which Civic is a party, during the Put Option Period, the sole member of the investment funds can put its interest in the investment funds to Civic for the Put Price. If the sole member of the investment funds does not exercise its Put Option, Civic may exercise its Call Option during the Call Option Period to call the sole member of the investment funds' interest, for the Call Price.

If, upon the occurrence of certain events defined in the Recapture Indemnity Agreements, any or all of the New Markets Tax Credits are reduced, recaptured or disallowed, Civic has guaranteed the sole member of each investment fund a target rate of return, as defined in the agreements.

On February 14, 2018, Civic received \$40,000,000 of allocation of New Market Tax Credits that Civic expects to utilize during 2018.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 8 - Notes Receivable**

Notes receivable consist of:

A loan bearing interest at 6.5% per annum. Commencing August 16, 2020, monthly payments are to be made at the rate of 1% per annum, with the unpaid interest being added to the principal amount. Commencing January 31, 2025, monthly payments of principal and interest will be due through maturity on December 31, 2042. As of December 31, 2017, Civic had lent \$1,695,568.	\$ 1,695,568
A loan bearing interest at 6.5% per annum. Commencing August 31, 2020, monthly payments of principal and interest will be due through maturity on December 31, 2042.	1,138,080
Two loans bearing interest at 5.446% per annum through November 15, 2015. Commencing December 15, 2015, monthly payments of principal and interest are due on both notes through maturity on May 31, 2021. The subsidiary borrowed the funds to make these two notes receivable (Note 10).	6,997,250
A loan bearing interest at 1.22% per annum, through December 15, 2020. Commencing January 15, 2021, monthly payments of principal and interest will be due through maturity on December 31, 2045. The subsidiary borrowed the funds to make this loan from another Civic subsidiary, which in turn borrowed the substantial portion of this amount from a foundation (Note 10).	2,871,562
A loan bearing interest at 1.65% per annum, through December 30, 2021. Commencing January 30, 2022, monthly payments of principal and interest will be due through maturity on December 31, 2044. The subsidiary borrowed the funds to make this loan from another Civic subsidiary, which in turn borrowed the substantial portion of this amount from a foundation (Note 10).	2,259,000
A loan bearing interest at 1% per annum, through December 20, 2022. Commencing January 20, 2023, monthly payments of principal and interest will be due through maturity on December 31, 2045.	<u>232,900</u>
Sub-total (carried forward)	<u>15,194,360</u>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 8 - Notes Receivable (continued)**

Sub-total (brought forward)	\$15,194,360
A loan bearing interest at 5% per annum through September 30, 2018. Commencing September 30, 2018, quarterly payments of interest and principal will be due through maturity on December 15, 2022.	1,000,000
A loan of up to \$16,020,000, at a maximum blended rate of 6.18% per annum, through maturity of December 15, 2050, when the entire principal balance was payable. This loan was made in connection with the financing of a charter school built by a subsidiary of Civic. During 2017, Civic received loan principal repayments of \$1,771,322. The remaining balance including accrued interest, of \$3,104,136 was forgiven by Civic in connection with the sale of property by a Civic Subsidiary.	-
Total Notes Receivable	16,194,360
Less: Current portion	<u>(276,953)</u>
Non-Current Portion	<u>\$15,917,407</u>

**Note 9 - Tenant Leases**

Civic has entered into leases for properties occupied or will be occupied by twelve charter schools. These leases expire at various dates through 2112.

Approximate future minimum rents to be received from these leases are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 4,580,000
2019	4,419,000
2020	4,261,000
2021	4,371,000
2022	4,485,000
Thereafter	93,530,000

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 10 - Loans Payable**

Loans payable consist of:

During January 2016, a Civic subsidiary refinanced its existing mortgage and entered into a \$2,678,000 loan with a CDFI. The loan requires monthly payments of \$25,857, including principal payments based on a twelve-year amortization period and interest at the rate of 5.8% per annum through its maturity on January 1, 2028. The mortgage requires the maintenance of certain cash reserve accounts, investment accounts and ratios.

\$ 2,350,228

During March 2017, A Civic subsidiary entered into an amended and restated loan agreement in the amount of \$3,250,000 which required a payment of \$1,021,817 to the lender. The restated loan requires monthly payments of \$28,789, including principal and interest at the rate of 5.25% per annum, through maturity on March 28, 2030. The Civic subsidiary is permitted to prepay the note in whole without any penalty or fee beginning March 28, 2020. Prior to that date, the loan may be prepaid subject to a prepayment penalty as defined in the agreement. The mortgage is secured by the the subsidiary's real estate, related rents, and \$500,000 lease payment reserve that was transferred to and held by the lender.

3,117,027

Loan payable by a Civic subsidiary to a foundation of up to \$10,000,000 to be made in periodic draws. Proceeds from each draw will bear no interest for a period of eighteen months from receipt of draw. Thereafter outstanding amounts will bear interest at the rate of 2% per annum through maturity when the unpaid principal balance is due. \$3,206,720 matures on February 22, 2023 and \$3,366,382 matures on December 31, 2023.

6,573,102

Loan payable by a Civic subsidiary to a CDFI in the amount of \$2,920,000 bearing interest at a rate of 6.25% per annum and maturing on May 19, 2021. Fixed payments of \$13,926 including principal and interest are due monthly beginning January 15, 2016 through date of maturity.

2,046,327

Loan payable by a Civic subsidiary to a bank in the amount of \$4,380,000. The loan bears interest at a fixed rate of 4.91% based on an interest swap rate agreement (Note 12). Interest and a fixed principal amount of \$8,512 is due monthly through maturity on May 19, 2021.

4,175,710

Sub-total (carried forward)

18,262,394



**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 10 - Loans Payable (continued)**

Sub-total (brought forward) \$18,262,394

Mortgages payable of a Civic subsidiary to a CDFI. On April 16, 2015, the existing mortgage was modified into a senior mortgage and a junior mortgage in the amounts of \$5,680,000 and \$317,324, respectively. The senior mortgage requires monthly payments of \$39,619, including principal and interest per annum through maturity on May 1, 2035 at a rate of 5.67%. The junior mortgage was fully repaid during 2016. The Senior Note is secured by the Civic subsidiary's real estate and related rents.

5,239,576

A Civic subsidiary entered into senior and junior construction mortgages in the amounts of \$8,365,000 and \$1,850,000, respectively. The senior loan requires interest only payments at a fixed rate of 5.19% based on an interest swap rate agreement (Note 12) through June 15, 2018, then principal and interest payments through its maturity on December 15, 2023. Effective July 15, 2018, the subsidiary has entered into an interest-rate swap agreement with regard to the senior loan (Note 12). The junior loan will require interest only payments at a 6% interest rate through June 20, 2018, then principal and interest payments through its maturity on December 20, 2023. The loan funds advanced to the Civic subsidiary during 2017 was from the senior loan. The junior loan requires that the senior loan be fully advanced before any funds can be advanced.

5,744,391

A Civic subsidiary, along with 600 Associates LLC ("Developer") and 600 East 156th Street LIHTC LLC ("Owner"), entered into a construction loan in the amount of \$5,477,710. The loan requires interest only payments at a rate 6.34% through maturity on June 28, 2020. Upon maturity, the Civic subsidiary will have the option to convert the construction loan to a permanent loan. Upon substantial completion of the school, the Developer and the Owner will be released from all obligations under the construction loan.

109,540

Three Qualified Low-Income Community Investment ("QLICI") loans payable by a Civic subsidiary to a New Markets Tax Credit Lender. In connection with the sale of its property. The Civic subsidiary repaid \$12,300,001 of the outstanding loans payable. The remaining balance of \$8,699,999 was forgiven by the lender and recorded as a part of gain on sale of property (Note 5).

-

Sub-total (carried forward)

29,355,901

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 10 - Loans Payable (continued)**

Sub-total (brought forward)	\$29,355,901
Promissory note, payable to a not-for-profit corporation, which bore interest, payable semi-annually, at the rate of 2.50% per annum, through maturity on April 1, 2018. This loan was fully repaid in February 2017.	-
Promissory note up to \$75,000, that was payable to a foundation, interest free, payable in three annual installments beginning July 15, 2015. The loan was fully repaid in July 2017.	-
Line of credit in the amount of \$750,000, which matured on July 1, 2017 and bore interest at 1.50%. There were no borrowings during 2017. Civic closed this line of credit on February 23, 2017.	<u>-</u>
Total Loans Payable	29,355,901
Less: Unamortized deferred financing costs	<u>(402,130)</u>
Mortgages payable, less unamortized deferred financing costs	28,953,771
Less: Current portion	<u>(756,832)</u>
Non-Current Portion	<u>\$28,196,939</u>

Approximate maturities of the debt during the next five years are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 757,000
2019	893,000
2020	1,048,000
2021	6,631,000
2022	884,000

Interest incurred on these loans was \$2,247,696 during 2017.

Interest payments (\$31,589) made by a Civic subsidiary during the year ended December 31, 2017 are capitalized and will be depreciated over the estimate useful life of the real estate upon completion.

As described in Note 13, \$3,088,500 of the U.S. Department of Education grant has been used as credit enhancement for five of the loans payable.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 11 - Commitments and Contingencies**

- a - Civic occupies office space pursuant to a lease that expires February 28, 2019. The lease provides for annual rents of approximately \$210,000 and additional rent based on increases in real estate taxes.

Office rent expense was \$207,226 for the year ended December 31, 2017.

- b - Civic leases portions of seven properties which are subleased to seven charter schools. The leases expire at various dates through 2112. Approximate rent payments due for these leases are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 1,928,000
2019	1,988,000
2020	2,050,000
2021	2,113,000
2022	2,078,000
Thereafter	29,231,000

- c - Civic has a defined contribution 401 (k) plan beginning January 1, 2017, for regular full-time employees age twenty-one and over. Civic makes matching contributions equal to 100% on the first 3% of employees' contributions and 50% on the next 2% of employees' contributions. Civic's contribution for the year ended December 31, 2017 was \$67,614.

**Note 12 - Interest-Rate Swaps**

Two Civic subsidiaries have entered into interest-rate swap agreements to reduce the impact of changes in interest rates on their floating rate long-term loans (Note 10). At December 31, 2017, the subsidiaries had outstanding two interest-rate swap agreements with a commercial bank effective November 19, 2013 and July 15, 2018. The agreements have total notional principal amounts equivalent to the subsidiaries' outstanding long-term loans. The agreements effectively change the subsidiaries' interest rate exposure on the equivalent amounts of their floating rate notes to fixed rates of 4.91% and 5.19%. The interest-rate swap agreements mature May 15, 2021 and December 15, 2023.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 13 - Concentration of Credit Risk**

Civic maintains its cash, restricted cash and unrestricted and restricted investments at financial institutions and in money market funds, United States Treasury notes and certificates of deposits. At December 31, 2017, \$3,726,825 was invested in a money market mutual fund that invests in United States Treasury securities. See Note 4 regarding investments in United States Treasury notes and certificates of deposits.

**Note 14 - U.S. Department of Education Grant**

On April 7, 2008, Civic was awarded \$8,300,000 through the U.S. Department of Education's Credit Enhancement for Charter School Facilities Grants Program (the "Grant").

The Grant is to assist Civic in obtaining lower cost financing to fund the construction of charter schools to be leased on favorable terms to charter schools in communities in need. The Grant term expires in 2033.

The Grant requires that the amount awarded and interest earned thereon be invested in segregated accounts consisting of permissible investments (as defined by the grant).

**Note 15 - Fiscal Agent**

Civic agreed to serve as a fiscal agent to collect and disburse funds received from three donors for a development project. At December 31, 2017 \$50,000 of funds received by Civic were not disbursed or earned by the ultimate recipient.

**Note 16 - Functional Allocation of Expenses**

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

## **SUPPLEMENTARY INFORMATION**

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
U.S. Department of Education: Credit Enhancement for Charter Schools Facilities Program	84.354A	<u>\$8,468,631</u>	N/A

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Basis of Presentation**

- Note A - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Civic Builders, Inc. and Subsidiaries under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Civic Builders, Inc. and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Civic Builders, Inc. and Subsidiaries.
- Note B - Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The 10 percent de minimis indirect cost rate is not applicable.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Civic Builders, Inc. and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Civic Builders, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 25, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Civic Builders, Inc. and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Civic Builders, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the Civic Builders, Inc. and Subsidiaries' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Civic Builders, Inc. and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

New York, New York  
April 25, 2018





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Civic Builders, Inc. and Subsidiaries

**Report on Compliance for Each Major Federal Program**

We have audited Civic Builders, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Civic Builders, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2017. Civic Builders, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Civic Builders, Inc. and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Civic Builders, Inc. and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Civic Builders, Inc. and Subsidiaries' compliance.



## Opinion on Each Major Federal Program

In our opinion, Civic Builders, Inc. and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

## Report on Internal Control over Compliance

Management of Civic Builders, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Civic Builders, Inc. and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Civic Builders, Inc. and Subsidiaries' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

New York, New York  
April 25, 2018

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED DECEMBER 31, 2017**

**A. Summary of Auditors' Results**

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Civic Builders, Inc. and Subsidiaries were prepared in accordance with GAAP.
2. No significant deficiencies are in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Civic Builders, Inc. and Subsidiaries were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Civic Builders, Inc. and Subsidiaries expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this schedule.
7. The program tested as major programs includes:

<u>Program</u>	<u>CFDA</u>
U.S. Department of Education: Credit Enhancement for Charter School Facilities Program	84.354A

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Civic Builders, Inc. and Subsidiaries was determined to be a low-risk auditee.

**B. Findings - Financial Statements Audit**

NONE

**C. Findings and Questioned Costs - Major Federal Award Program Audit**

NONE