

CIVIC BUILDERS, INC. AND SUBSIDIARIES

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

YEAR ENDED DECEMBER 31, 2019

CIVIC BUILDERS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7- 25
Supplementary Information	
Schedule of Expenditures of Federal Awards	27
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 <i>Government Auditing Standards</i>	28 - 29
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	30 - 31
Schedule of Findings and Questioned Costs	32



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. (a nonprofit organization) and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses 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 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 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 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 consolidated financial position of Civic Builders, Inc. and Subsidiaries as of December 31, 2019, 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 30, 2020, 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.

Emphasis of Matter

As discussed in Note 17 to the consolidated financial statements, in March 2020, the United States of America declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. As a result, Civic Builders, Inc. has delayed some of its projects. Our opinion is not modified with respect to that matter.

Lotz + Carr, LLP

New York, New York
April 30, 2020

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

Assets

Current Assets

Cash and cash equivalents (Notes 1b and 15)	\$ 2,932,075
Cash restricted by the Board of Directors (Notes 1b and 15)	1,000,000
Restricted cash (Notes 1b, 11, 15 and 16)	3,136,869
Unrestricted investments (Notes 1c, 1d, 5 and 15)	9,278,257
Restricted investments (Notes 1c, 1d, 5, 15 and 16)	7,073,694
Contributions receivable (Notes 1h and 4)	
Without donor restrictions	50,500
Accounts receivable and other assets	642,027
Notes receivable (Note 9)	496,086
Total Current Assets	<u>24,609,508</u>

Non-Current Assets

Restricted cash (Notes 1b, 11, 15 and 16)	1,566,406
Restricted investments (Notes 1c, 1d, 5, 15 and 16)	490,349
Other assets	2,492,539
Investments in New Markets Tax Credit entities (Note 8)	11,800
Real estate, at cost, net of accumulated amortization and depreciation (Notes 1e, 6 and 7)	41,314,518
Interest receivable	335,347
Notes receivable (Note 9)	20,955,930
Mortgage escrow deposit (Note 11)	500,000
Deferred leasing costs, net of accumulated amortization of \$422,491 (Note 1f)	1,319,793
Office improvements and equipment, at cost, net of accumulated depreciation (Note 1g)	84,409
Total Non-Current Assets	<u>69,071,091</u>

Total Assets**\$93,680,599****Liabilities and Net Assets**

Liabilities

Current Liabilities

Accounts payable and other accrued expenses	\$ 294,553
Construction accounts payable	4,562,896
Deferred revenue (Note 1i)	191,271
Loans payable (Notes 1j and 11)	711,727
Total Current Liabilities	<u>5,760,447</u>

Non-Current Liabilities

Loans payable (Notes 1j and 11)	42,007,812
Deferred rent payable (Note 1k)	152,725
Interest rate swaps (Notes 1l, 13 and 14)	46,053
Tenants' security deposits and reserves	3,439,975
Total Non-Current Liabilities	<u>45,646,565</u>

Total Liabilities

51,407,012

Commitments and Contingencies (Notes 8, 11, 12, 13, 14 and 17)

Net Assets

Without Donor Restrictions

Operating	30,415,708
Board-designated cash reserve (Note 3)	1,000,000
Total Without Donor Restrictions	<u>31,415,708</u>
With Donor Restrictions (Note 3)	<u>10,857,879</u>

Total Net Assets

42,273,587**Total Liabilities and Net Assets****\$93,680,599**

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

Changes in Net Assets Without Donor Restrictions

Revenue, Gains and Other Support (Excluding Public Support)	
Rental income (Note 10)	\$ 4,539,635
Interest income	1,242,148
Sponsor fees (Notes 1m and 8)	1,600,000
Unrealized gain on investment	12,783
Unrealized gain on interest rate swaps (Notes 1l, 13 and 14)	48,595
Management fees (Notes 1m and 8)	2,029,803
Other income	9,805
	<hr/>
Total Revenue, Gains and Other Support (Excluding Public Support and Gain on Sale of Property)	9,482,769
	<hr/>
Expenses	
Program Services	
Rental and project development	10,033,686
Supporting Services	
Management and general	1,221,170
Fundraising	364,570
Total Supporting Services	1,585,740
	<hr/>
Total Expenses	11,619,426
	<hr/>
Decrease in Net Assets Without Donor Restrictions (Excluding Public Support and Gain on Sale of Property)	(2,136,657)
	<hr/>
Public Support	
Contributions (Notes 1h and 4)	715,030
Net assets released from restrictions	1,382,926
Total Public Support	2,097,956
	<hr/>
Decrease in Net Assets Without Donor Restrictions (Including Public Support Excluding Gain on Sale of Property)	(38,701)
	<hr/>
Gain on Sale of Property (Note 6)	1,687,614
Transfer of gain on sale of property to net assets with donor restrictions	(40,296)
	<hr/>
Increase in Net Assets Without Donor Restrictions	1,608,617
	<hr/>

Changes in Net Assets With Donor Restrictions

Contributions (Notes 1h and 4)	1,152,150
Donated interest (Notes 1j and 11)	147,909
Interest income	176,121
Unrealized loss on investment	(7,883)
Net assets released from restrictions	(1,382,926)
Transfer of gain on sale of property to net assets with donor restrictions	40,296
	<hr/>
Increase in Net Assets With Donor Restrictions	125,667
	<hr/>
Increase in net assets	1,734,284
Distribution to Civic Builders, Inc. (non-Civic entities)	232
Net assets, beginning of year	40,539,071
	<hr/>
Net Assets, End of Year	\$42,273,587
	<hr/>

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services	Supporting Services			Total Expenses
		Management and General	Fundraising	Total	
Salaries	\$ 2,237,093	\$ 604,671	\$ 157,150	\$ 761,821	\$ 2,998,914
Payroll taxes and benefits	429,969	116,218	30,204	146,422	576,391
Consulting services	830,804	117,060	124,269	241,329	1,072,133
Facilities	2,640,215	96,431	25,062	121,493	2,761,708
Grant expense	31,040	-	-	-	31,040
Insurance	147,780	12,013	-	12,013	159,793
Non recoverable pre-development	183,369	-	-	-	183,369
Professional fees	61,064	190,217	-	190,217	251,281
Marketing	20,334	-	15,380	15,380	35,714
Supplies and general	103,370	37,521	7,263	44,784	148,154
Travel	129,996	20,172	5,242	25,414	155,410
Interest	1,632,901	-	-	-	1,632,901
Letter of credit fees	80,951	-	-	-	80,951
SCA project expenses	300,000	-	-	-	300,000
Amortized interest	197,936	-	-	-	197,936
Depreciation and amortization	1,006,864	26,867	-	26,867	1,033,731
Total Expenses	<u>\$10,033,686</u>	<u>\$ 1,221,170</u>	<u>\$ 364,570</u>	<u>\$1,585,740</u>	<u>\$11,619,426</u>

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

Cash Flows From Operating Activities

Increase in net assets	\$ 1,734,284
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,033,731
Amortized interest	197,936
Unrealized gain on investment	(4,900)
Unrealized gain on interest rate swaps	(48,595)
Donated interest	(147,909)
Gain on sale of property	(1,687,614)
(Increase) decrease in:	
Contributions receivable	74,770
Interest receivable	(335,347)
Construction reimbursement receivable	117,542
Other assets	234,344
Increase (decrease) in:	
Accounts payable and other accrued expenses	(93,269)
Deferred revenue	191,271
Deferred rent payable	149,781
Tenants' security deposits and reserves	(479,725)
Net Cash Provided By Operating Activities	<u>936,300</u>

Cash Flows From Investing Activities

Purchase of investments	(19,171,836)
Redemption of investments	21,434,187
Net proceeds from sale of property	15,389,207
Purchase of real estate and construction costs	(24,108,680)
Notes receivable	(5,261)
Office improvements, equipment and deferred leasing costs	(37,873)
Construction accounts payable	309,390
Net Cash Used By Investing Activities	<u>(6,190,866)</u>

Cash Flows From Financing Activities

Proceeds from loans payable	2,223,963
Deferred financing costs	(563,231)
Repayments of loans payable	(17,445,673)
Investment from Civic Builders, Inc. (non-Civic entities)	(2,000)
Distribution to Civic Builders, Inc. (non-Civic entities)	232
Net Cash Used By Financing Activities	<u>(15,786,709)</u>

Net decrease in cash and restricted cash	(21,041,275)
Cash and restricted cash, beginning of year	<u>29,676,625</u>

Cash and Restricted Cash, End of Year \$ 8,635,350

Supplemental Disclosure of Cash Flow Information

Interest paid	<u><u>\$ 2,103,339</u></u>
---------------	----------------------------

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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.; 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; Civic RI Central Falls Charter I LLC; Civic Fund Manager LLC; Civic Fund Manager II LLC; Civic Charter Lender, Inc.; Civic NYC Fund, Inc.; Civic 411 Wales Corporation; Civic East 156th Street Corporation; Civic Concourse Village Corporation and certain other wholly owned limited liability companies and corporations that had no assets or liabilities at December 31, 2019 and 2018 and no activity during those years. 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.

c - 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 net assets without donor restrictions unless their use is 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 net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 1 - Organization and Summary of Significant Accounting Policies (continued)**d - Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. Generally accepted accounting principles in the United States of America ("GAAP") establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect Civic's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Fair value measurements are categorized into three levels based on these inputs as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Civic has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

e - 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. Construction and renovation in progress will be depreciated at the time that they are placed in service.

f - 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 reduce the carrying amount of debt.

g - 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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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

h - Contributions Receivable

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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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

i - Deferred Revenue

Deferred revenue is recognized as income in the applicable period.

j - Donated Interest

The difference between the stated interest rate and imputed interest rate (based on Applicable Federal Rate) is recorded as donated interest and a discount to the loan principal balance. Interest expense is recognized and added back to the loan principal balance annually through the loan's maturity.

k - Deferred Rent Payable

Office rent expense is recorded on a straight-line basis over the life of the lease (Note 12a). 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 consolidated financial statements.

l - 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 13). The related liability or asset are reported at fair value in the statement of financial position within level 3 (Note 14), and unrealized gains or losses are included in the statement of activities.

m - Revenue Recognition

Sponsor fees are recognized as revenue in the period whereby Civic allocates its New Market Tax Credit allocations. Management fees are recognized as revenue in the period that the related services are provided.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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

n - Functional Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributable to program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The basis of employees' estimates of time and effort is used to allocate salaries, payroll taxes and benefits, facilities and travel.

o - Financial Statement Presentation

The financial statements of Civic have been prepared in accordance with GAAP, which require Civic to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Civic. These net assets may be used at the discretion of Civic's management and board of directors.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Civic or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

p - Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

q - Tax Status

Civic NYC Fund, Inc. ("NYC Fund"), Civic 411 Wales Corporation ("411 Wales"), Civic East 156th Corporation ("East 156") and Civic Charter Lender, Inc. 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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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

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; Civic Fund Manager LLC and Civic Fund Manager II 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.

Civic RI Central Falls Charter I LLC ("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 Concourse Village Corporation's ("Concourse") application for 501(c)(3) designation is pending.

r - Recent Accounting Pronouncements

In 2019, Civic has adopted Accounting Standards Update (ASU) No 2014-09, *Revenue from Contracts with Customers* (Topic 606), and ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605). Analysis of the various provisions of these standards resulted in no significant changes in the way Civic recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

In 2019, Civic adopted Accounting Standards Update (ASU) No. 2016-18 *Statement of Cash Flows* (Topic 230). ASU 2016-18 provides guidance on restricted cash when preparing the statement of cash flows. GAAP will now require restricted cash accounts to be included with cash in the beginning-of-period and end-of-period cash balances.

The following table provides a reconciliation of cash and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows at December 31, 2019.

Cash	\$2,932,075
Cash restricted by Board of Directors	1,000,000
Restricted cash	<u>4,703,275</u>
Total Cash and Restricted Cash Shown in the Statement of Cash Flows	<u>\$8,635,350</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

r - Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. Civic is currently evaluating the impact of ASU 2016-02 on its financial statements.

s - Subsequent Events

Civic has evaluated subsequent events through April 30, 2020, the date that the financial statements are considered available to be issued.

Note 2 - Information Regarding Liquidity and Availability

Civic operates with board approved operating and capital budgets for each fiscal year based on the sources expected to be available to fund anticipated uses. Substantial portions of the annual sources are comprised of contractual earned revenue and contribution revenue raised during the current year. Substantial portions of the annual uses are comprised of contractual program activities as well as investments into new development projects.

Civic regularly monitors liquidity to meet its operating and capital needs and other commitments and obligations, while seeking to preserve the principal of its available funds. Management prepares regular cash flow projections to determine liquidity need, and has a policy to maintain liquid financial assets on an ongoing basis sufficient to cover 180 days of operating expenditures and anticipated investments into new development projects. Financial assets in excess of daily cash requirements are invested in short term certificates of deposits, U.S. treasury bills and notes, and money market mutual funds that invests solely in U.S. government securities.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 2 - Information Regarding Liquidity and Availability (continued)

Civic's financial assets not including contractual earned revenue as of December 31, 2019 that are available within one year to meet cash needs for operating and capital uses within one year are summarized as follows:

Financial Assets at Year End:	
Cash and cash equivalents	\$ 2,932,075
Cash restricted by the Board of Directors	1,000,000
Restricted cash	4,703,275
Investments	16,842,300
Contributions receivable	50,500
Other assets - accounts and construction reimbursement receivables	742,402
Notes receivable	21,452,016
Mortgage escrow deposit	<u>500,000</u>
Total Financial Assets	48,222,568
Less: Amounts not Available to be Used within One Year:	
Restricted cash and investments held as tenants' security deposits and loan funding reserves	(2,547,366)
Accounts receivable due in excess of one year	(335,347)
Net assets with donor restrictions subject to expenditure specific purposes or passage of time	(9,412,148)
Cash restricted by the Board of Directors	(1,000,000)
Notes receivable - non current	(20,955,930)
Mortgage escrow	<u>(500,000)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$13,471,777</u>

Note 3 - Net AssetsNet Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

Operating	
Subject to expenditure for specified purposes	\$ 8,870,041
Subject to passage of time	<u>1,987,838</u>
	<u>\$10,857,879</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 4 - Contributions Receivable

Contributions receivable to give are due within one year. Uncollectible promises to give are expected to be insignificant.

At December 31, 2019, 100% of contributions receivable were from one donor.

During the years ended December 31, 2019, Civic received approximately 50% of its contributions from one donor.

Note 5 - Investments

Investments, which are classified as Level 1 in the fair value hierarchy, consist of the following at December 31, 2019:

	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 6,575,618	\$ 6,583,083
Certificates of deposit	<u>10,255,960</u>	<u>10,259,217</u>
Total	<u>\$16,831,578</u>	<u>\$16,842,300</u>

Note 6 - Real Estate

Real estate consists of:

Land	\$ 860,980
Building and leasehold improvements	38,858,450
Construction and renovation in progress	<u>8,004,097</u>
	47,723,527
Less: Accumulated depreciation and amortization	<u>(6,409,009)</u>
	<u>\$41,314,518</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 6 - Real Estate (continued)

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

Two Civic subsidiaries entered into two ground leases for the purpose of renovating and constructing the properties and subleasing them to two charter schools. In connection with these projects, the development costs have been recorded as construction and renovation in progress at December 31, 2019.

On April 26, 2019, a Civic Subsidiary sold its property to a charter school for \$15,669,645, terminated the lease, and returned the school's security deposit. In connection with the sale, the subsidiary repaid its outstanding mortgages payable from the proceeds of the sale (Note 11).

Note 7 - Development Projects

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

Note 8 - New Markets Tax Credit Transactions

Civic participates in the federal New Markets Tax Credit ("NMTC") program, which is authorized under Section 45D of the Internal Revenue Code of 1986, as both (a) a certified Community Development Entity ("CDE"), and (b) as a developer of charter school facilities projects eligible for NMTC financing.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 8 - New Markets Tax Credit Transactions (continued)

(a) As a CDE, Civic has been awarded \$118,000,000 of NMTC allocation authority by the Community Development Financial Institutions Fund, including \$40,000,000 in 2018. As of December 31, 2019, Civic has sub-allocated \$118,000,000 of NMTC allocation to twelve limited liability companies certified as subsidiary CDEs ("Sub-CDE"), \$20,000,000 of which was sub-allocated in 2019 and \$20,000,000 of which was sub-allocated in 2018. Each Sub-CDE received a qualified equity investment ("QEI") from an investment fund owned by a third-party NMTC investor and used substantially all of the proceeds to make one or more qualified low-income community investments ("QLICs") to a qualified active low-income business ("QALICB"). Civic has a 0.01% interest in each Sub-CDE and manages the entity in accordance with an operating agreement between Civic and the investment fund. Civic provided each NMTC investor with a limited indemnity in the event that specified actions or inactions by Civic as a CDE result in a reduction, recapture or disallowance of the NMTCs. In connection with these transactions, Civic has earned or will earn asset management and sponsor fees.

(b) As a developer of charter school facilities, Civic formed QALICBs which used QLICI proceeds to fund construction of projects eligible for NMTC financing, including a certain wholly owned subsidiary of Civic that borrowed QLICI loans during 2018 (Note 11). For these development projects, Civic provided the NMTC investor with a limited indemnity in the event that specified actions or inactions by Civic were to result in a reduction, recapture or disallowance of the NMTCs. At the end of the seven-year credit allowance period, pursuant to a put-call agreement, the investor has the option to put its ownership interest in the investment fund to Civic in exchange for \$1,000. If the investor does not exercise its put right, Civic has the option to acquire investor's ownership interest in the investment fund in exchange for its fair market value. In connection with these development projects, Civic has earned or will earn asset management, sponsor and development fees. For some of these development projects, Civic formed certain wholly owned subsidiaries that lent to investment funds (Note 9), that in turn, made QEIs in the CDEs that provided the QLICs.

Note 9 - Notes Receivable

Notes receivable consist of:

A loan bearing interest at 6.5% per annum. Through December 31, 2024, 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, 2019, Civic had lent \$1,901,951.

\$1,901,951

Sub-total (carried forward)

1,901,951

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 9 - Notes Receivable (continued)

Sub-total (brought forward)	\$ 1,901,951
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 11).	6,672,524
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 11).	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 11).	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.	232,900
A loan bearing interest at 5% per annum requiring quarterly interest payments through December 15, 2022. Commencing December 15, 2019 annual principal payments will be due through maturity on December 15, 2022.	1,000,000
A loan bearing interest at 5.75% per annum through July 15, 2023 requiring quarterly interest payments through April 15, 2022. Commencing July 15, 2022, quarterly payments of interest and principal will be due through maturity on July 15, 2023.	<u>131,000</u>
Sub-total (carried forward)	<u>16,207,017</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 9 - Notes Receivable (continued)

Sub-total (brought forward)	\$16,207,017
A loan of up to \$116,667, bearing interest at 5% per annum up to a maximum of three years, requiring quarterly interest payments through maturity. The principal will be due upon the return of borrower's security deposit from its landlord.	
	70,000
A loan bearing interest at 4.81% per annum. On August 27, 2025, accumulated interest of \$1,233,078 is due. Commencing September 20, 2025, monthly payments of interest will be due through September 20, 2032. Commencing October 20, 2032, monthly payments of principal and interest will be due through maturity through maturity on August 31, 2058. This loan was made in connection with the financing of a charter school built by a subsidiary of Civic.	
	<u>5,174,999</u>
Total Notes Receivable	21,452,016
Less: Current portion	<u>(496,086)</u>
Non-Current Portion	<u>\$20,955,930</u>

Note 10 - Tenant Leases

Civic has entered into leases for properties occupied or to be occupied by fourteen 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>	
2020	\$ 5,327,000
2021	5,709,000
2022	5,565,000
2023	5,478,000
2024	5,634,000
Thereafter	77,975,000

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 11 - Loans Payable

Loans payable consist of:

A Civic subsidiary entered into a loan agreement in the amount of \$2,678,000. 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.

\$1,998,444

A Civic subsidiary entered into a loan agreement in the amount of \$3,250,000. The 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 subsidiary's real estate, related rents, and \$500,000 lease payment reserve that was transferred to and held by the lender.

2,751,235

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. During the year ended December 31, 2019, the subsidiary repaid \$5,323,102 of loan principal. The outstanding loan balance at December 31, 2019, matures on December 31, 2023.

1,000,000

Loan payable by a Civic subsidiary to a CDFI in the amount of \$2,920,000 which bore interest at a rate of 6.25% per annum and maturing on May 19, 2021. Fixed payments of \$13,926 including principal and interest were due monthly beginning January 15, 2016 through date of maturity. The subsidiary repaid its outstanding loan payable of \$1,904,824 during 2019.

-

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 (Notes 13 and 14). Interest and a fixed principal amount of \$8,512 is due monthly through maturity on May 19, 2021.

3,971,420

Sub-total (carried forward)

9,721,099

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 11 - Loans Payable (continued)

Sub-total (brought forward)	\$ 9,721,099
-----------------------------	--------------

A Civic subsidiary has a mortgage payable to a CDFI in the amount of \$5,680,000. The 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 mortgage is secured by the subsidiary's real estate, related rents and restricted cash. On March 16, 2020, the subsidiary entered into a loan agreement with a CDFI to borrow approximately \$3,943,000 and to refinance its outstanding mortgage payable of approximately \$4,829,000 into a new combined loan totaling \$8,772,000. This loan bears interest at a rate of 4.9% and requires an interest only payment during April 2020. Commencing May 1, 2020, this loan will require monthly payments of interest and principal of \$51,950 based on a 287 month amortization through its maturity on March 1, 2044.

4,879,372

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 required interest only payments at a variable rate based on the 30-day LIBOR rate plus 250 basis points through June 15, 2018, then principal and interest payments through its maturity on December 15, 2023. The subsidiary entered into an interest rate swap agreement with regard to the senior loan (Notes 13 and 14). The junior loan required interest only payments at 6% through June 20, 2018, then principal and interest payments through its maturity on December 20, 2023. In connection with the sale of its property (Note 6) the subsidiary repaid its outstanding mortgages payable of \$9,693,980 during 2019.

-

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.

175,816

Loan payable to a private foundation aggregating \$6,000,000, for the purpose of financing the development of four charter schools, the projects (Note 4). The loan is non-interest bearing and the principal is due upon maturity on December 9, 2027. Interest has been imputed in the amounts of \$147,909 in 2019 and \$993,855 in 2018 and recognized as a contribution to the Civic subsidiary and netted against loan payable. Interest expense recognized during the year ended December 31, 2019 was \$139,719.

5,062,162

Sub-total (carried forward)

19,838,449

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 11 - Loans Payable (continued)

Sub-total (brought forward)	\$19,838,449
-----------------------------	--------------

A Civic Subsidiary entered into direct loans 1, 2 and 3 consisting of three building notes in the amount of \$2,354,848 and three project notes totaling \$1,330,000. The building and project notes will require payment of interest only at a rate of 6.8% through March 10, 2020. Commencing on April 10, 2020, the notes will require payments of principal and interest through maturity on August 27, 2025, at which time the outstanding principal and accrued interest will also be due. At December 31, 2019, the subsidiary had not received any proceeds from the direct loans.

-

A Civic Subsidiary entered into QLICI Loans 1, 2 and 3 consisting of nine building notes in the amounts of \$9,844,978 (three "Notes Aa"), \$6,603,000 (three "Notes B"), \$5,056,848 (three "Notes C") and three project notes in the amount of \$1,970,174 ("Notes Ab"). All of the notes bear interest at a rate of 4.23491% per annum. Notes Aa and Ab require payments of interest only, commencing on October 10, 2018 through August 10, 2025. At August 27, 2025, the maturity date, Notes Aa and Ab will require payments of all principal and any unpaid accrued interest. Notes B and C require payment of interest only, commencing on October 10, 2018 through September 10, 2028. Commencing on October 10, 2028, Notes B and C will require monthly payments of principal and interest in the amount of \$57,256 through August 10, 2058. On August 31, 2058, the maturity date, Notes B and C will require payment of the remaining unpaid principal and any unpaid accrued interest.

23,475,000

A Civic Subsidiary entered into a senior loan consisting of a building note and a project note in the aggregate amount of \$17,925,000. The notes bear interest at a rate of 3% plus LIBOR through January 2021 and 2.5% plus LIBOR from January 2021 through maturity. Effective January 15, 2021, the subsidiary has entered into an interest rate swap agreement with regard to the senior loan (Note 8). The notes will require payments of interest only, from the time it is drawn, through February 28, 2021. Commencing in March 1, 2021, the notes will require monthly payments of principal and interest through August 31, 2024. On August 31, 2024, the maturity date, the notes will require payment of the remaining unpaid principal and any unpaid accrued interest. There was no outstanding balance on this loan at December 31, 2019.

-

Sub-total (carried forward)	<u>43,313,449</u>
-----------------------------	-------------------

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 11 - Loans Payable (continued)

Sub-total (brought forward)	\$43,313,449
-----------------------------	--------------

A Civic Subsidiary entered into a subordinate loan consisting of a building note and a project note in the aggregate amount of \$6,000,000. The notes bear interest at a rate of 5.75% per annum. The notes require payments of interest only through February 28, 2021. Commencing on March 1, 2021, the notes will require monthly payments of principal and interest through August 31, 2024. On August 31, 2024, the maturity date, the notes will require payment of the remaining unpaid principal and any unpaid accrued interest.

	<u>1,183,405</u>
Total Loans Payable	44,496,854
Less: Unamortized deferred financing costs	<u>(1,777,315)</u>
Mortgages payable, less unamortized deferred financing costs	42,719,539
Less: Current portion	<u>(711,727)</u>
Non-Current Portion	<u>\$42,007,812</u>

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

<u>Year Ending December 31,</u>	
2020	\$ 864,000
2021	4,594,000
2022	784,000
2023	1,827,000
2024	1,594,000

Interest incurred on these loans was \$2,223,737 during 2019, of which \$590,836 and was capitalized during the year ended December 31, 2019. Interest incurred during the year ended December 31, 2019 includes \$139,719 of imputed interest that is recognized as interest expense.

As described in Note 16, \$5,250,000 of the U.S. Department of Education grant has been used as credit enhancement for nine of the loans payable.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 12 - Commitments and Contingencies

- a - Civic occupies office space pursuant to a lease that expires March 31, 2029. The lease provides for annual rents and additional rent based on increases in real estate taxes. Approximate minimum annual rental payments are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 355,000
2021	364,000
2022	373,000
2023	384,000
2024	408,000
Thereafter, through March 31, 2029	1,855,000

Office rent expense was \$380,852 for the year ended December 31, 2019.

- b - Civic leases portions of ten properties which are subleased to ten 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>	
2020	\$ 3,074,000
2021	3,162,000
2022	3,263,000
2023	3,376,000
2024	3,520,000
Thereafter	100,808,000

- c - Civic has a defined contribution 401(k) plan 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 contributions for the year ended December 31, 2019 was \$99,210.
- d - In connection with one of Civic subsidiaries' projects, there remained approximately \$16,807,000 of construction contract commitments.
- e - Civic has entered into loan guaranty agreements (the "Guaranties"), totaling \$11,815,152, with lenders that made loans to an unrelated entity (the "Entity") for the purpose of developing a property for two charter schools. The Guaranties specify certain covenants, including the requirements to maintain a certain level of net assets and to provide periodic financial reporting. The Guaranties will terminate upon satisfaction of certain obligations as defined in the loan agreements or upon the full repayment of the loans by the Entity.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 12 - Commitments and Contingencies (continued)

- f - A subsidiary of Civic entered into an Operating Agreement on June 27, 2019 which requires capital contributions up to a cap of \$3,500,000 towards the joint venture development of a building that will include a charter school. The joint venture developer will enter into a lease, secure financing, construct a building, and enter into a long term sublease with a charter school for the charter school portion of the building. As of December 31, 2019, Civic had not made a capital contribution to the joint venture development.

Note 13 - Interest Rate Swaps

At December 31, 2019, two Civic subsidiaries had outstanding two interest rate swap agreements with two commercial banks effective November 19, 2013 and January 15, 2021, to reduce the impact of changes in interest rates on their floating rate long-term loans (Note 11). 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 2.27% plus a 2.5% interest markup rate, respectively. The interest rate swap agreements mature May 15, 2021 and July 15, 2024.

Another Civic subsidiary had an interest rate swap agreement effective July 15, 2018 and maturing December 2023. This was terminated on April 26, 2019, in connection with the sale of this subsidiary's property. The subsidiary paid an early swap breakage fee of \$189,000 in April 2019.

Note 14 - Fair Value Measurements

The interest rate swaps are measured at fair value on a recurring basis. The values of the interest rate swaps are based on unobservable inputs, and are therefore, classified within Level 3.

For the year ended December 31, 2019, the changes in assets and liabilities measured using unobservable inputs were as follows:

Interest rate swaps, beginning of year	\$(94,648)
Change in fair value of interest rate swaps	<u>48,595</u>
Interest rate swaps, end of year	<u><u>\$(46,053)</u></u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 15 - 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, 2019, \$1,741,000 was invested in a money market mutual fund that invests in United States Treasury securities. See Note 5 regarding investments in United States Treasury notes and certificates of deposits.

Note 16 - 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).

The Grant requires a portion of the gain from the sale of a property which utilized the Grant funds to be added to available funds for future credit enhancements. During the year ended December 31, 2019, Civic allocated \$40,296 of the gain on sale from a subsidiary's property (Note 6) into the grant funds.

Note 17 - Subsequent Event

In March 2020, the United States of America declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. As a result, Civic has delayed some of its projects, and construction at two of its subsidiaries has been delayed. Management is currently evaluating the potential impact that the resulting economic uncertainties will have on Civic's operations. While management is currently evaluating the potential impact that the resulting economic uncertainties may have on Civic, it believes that its current financial assets are sufficient to support Civic's operations on an ongoing basis.

SUPPLEMENTARY INFORMATION

CIVIC BUILDERS, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education Credit Enhancement for Charter Schools Facilities Program	84.354A	<u>\$6,990,623</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Basis of Presentation

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, 2019. 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. The total funds available for the federal award activity is \$8,759,431 of which, \$6,990,623 was deployed during 2019.

Note B - Summary of Significant Accounting Policies

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.



**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. (a nonprofit organization) and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 31, 2019.

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 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 30, 2020



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, 2019. 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, 2019.

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 30, 2020

CIVIC BUILDERS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on whether the consolidated 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 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 a major program includes:

<u>Program</u>	<u>CFDA</u>
U.S. Department of Education Credit Enhancement for Charter Schools 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