

CIVIC BUILDERS, INC. AND SUBSIDIARIES

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

YEAR ENDED DECEMBER 31, 2020

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, 2020, 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 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 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 consolidated financial position of Civic Builders, Inc. and Subsidiaries as of December 31, 2020, 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

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 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 26, 2021, 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.

Lotz + Carr, LLP

New York, New York
April 26, 2021

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

Assets

Current Assets

Cash and cash equivalents (Notes 1b, 2 and 16)	\$ 4,681,821
Cash restricted by the Board of Directors (Notes 1b, 2 and 16)	2,000,000
Restricted cash (Notes 1b, 2, 12, and 16)	1,237,685
Unrestricted investments (Notes 1c, 1d, 6 and 16)	6,153,771
Contributions receivable (Notes 1h and 5)	
Without donor restrictions	44,578
With donor restrictions	1,000,000
Accounts receivable and other assets	3,059,705
Interest receivable	55,317
Notes receivable (Note 10)	12,032,650
Total Current Assets	<u>30,265,527</u>

Non-Current Assets

Restricted cash (Notes 1b, 2, 12, and 16)	3,763,923
Restricted investments (Notes 1c, 1d, 6, 16 and 17)	7,666,747
Other assets	2,367,058
Investment in joint venture (Note 13f)	425,000
Investments in New Markets Tax Credit entities (Note 9)	14,800
Real estate, at cost, net of accumulated amortization and depreciation (Notes 1e, 7 and 8)	68,600,939
Interest receivable	584,265
Notes receivable (Note 10)	8,466,024
Mortgage escrow deposit (Note 12)	500,000
Deferred leasing costs, net of accumulated amortization of \$511,752 (Note 1f)	1,277,880
Office improvements and equipment, at cost, net of accumulated depreciation (Note 1g)	62,655
Total Non-Current Assets	<u>93,729,291</u>

Total Assets**\$123,994,818****Liabilities and Net Assets**

Liabilities

Current Liabilities

Accounts payable and other accrued expenses	\$ 421,885
Construction accounts payable	1,797,537
Deferred revenue (Note 1i)	341,426
Interest rate swaps (Notes 1l, 14 and 15)	36,723
Loans payable (Notes 1j and 12)	5,937,655
Total Current Liabilities	<u>8,535,226</u>

Non-Current Liabilities

Loans payable (Notes 1f, 1j and 12)	69,220,015
Deferred rent payable (Note 1k)	208,927
Tenants' security deposits and reserves	3,860,618
Total Non-Current Liabilities	<u>73,289,560</u>

Total Liabilities

81,824,786

Commitments and Contingencies (Notes 9, 12, 13, 14, 15 and 18)

Net Assets

Without Donor Restrictions

Operating	29,206,656
Board-designated cash reserve (Note 4)	2,000,000
Total Without Donor Restrictions	<u>31,206,656</u>
With Donor Restrictions (Note 4)	<u>10,963,376</u>

Total Net Assets

42,170,032**Total Liabilities and Net Assets****\$123,994,818**

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

Changes in Net Assets Without Donor Restrictions

Revenue, Gains and Other Support (Excluding Public Support)	
Rental income (Note 11)	\$ 6,100,633
Interest income	1,026,528
Development fees (Note 1m)	22,500
Sponsor fees (Notes 1m and 9)	1,950,000
Unrealized gain on investment	16,514
Realized gain on sale of investments	67
Unrealized gain on interest rate swaps (Notes 1l, 14 and 15)	9,330
Consulting income (Note 1m)	169,451
Management fees (Notes 1m and 9)	2,439,016
Other income	1,859
	<hr/>
Total Revenue, Gains and Other Support (Excluding Public Support and Net Loss Assumed from Acquired Entities)	11,735,898
	<hr/>
Expenses	
Program Services	
Rental and project development	12,203,237
Supporting Services	
Management and general	1,283,513
Fundraising	290,666
Total Supporting Services	1,574,179
	<hr/>
Total Expenses	13,777,416
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Decrease in Net Assets Without Donor Restrictions (Excluding Public Support and Net Loss Assumed from Acquired Entities)	(2,041,518)
	<hr/>
Public Support	
Contributions (Notes 1h and 5)	784,734
Net assets released from restrictions	1,317,888
Total Public Support	2,102,622
	<hr/>
Increase in Net Assets Without Donor Restrictions (Including Public Support, Excluding Net Loss Assumed from Acquired Entities)	61,104
	<hr/>
Net loss assumed from acquired entities (Note 9)	(270,401)
	<hr/>
Decrease in Net Assets Without Donor Restrictions	(209,297)
	<hr/>

Changes in Net Assets With Donor Restrictions

Contributions (Notes 1h and 5)	1,106,415
Donated interest (Notes 1j and 12)	211,341
Interest income	133,479
Unrealized loss on investments	(27,850)
Net assets released from restrictions	(1,317,888)
	<hr/>
Increase in Net Assets With Donor Restrictions	105,497
	<hr/>
Decrease in net assets	(103,800)
Distribution to Civic Builders, Inc. (non-Civic entities)	245
Net assets, beginning of year	42,273,587
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Net Assets, End of Year	\$42,170,032
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See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	Program Services	Supporting Services			Total Expenses
		Management and General	Fundraising	Total	
Salaries	\$ 2,525,625	\$ 667,773	\$ 208,068	\$ 875,841	\$ 3,401,466
Payroll taxes and benefits	413,347	109,288	34,053	143,341	556,688
Consulting services	1,041,625	73,556	-	73,556	1,115,181
Facilities	3,307,653	92,478	28,815	121,293	3,428,946
Grant expense	89,407	-	-	-	89,407
Insurance	160,062	21,484	-	21,484	181,546
Non recoverable pre-development	66,070	-	-	-	66,070
Professional fees	81,364	246,111	-	246,111	327,475
Marketing	17,139	-	7,133	7,133	24,272
Supplies and general	139,558	47,540	11,497	59,037	198,595
Travel	24,056	3,529	1,100	4,629	28,685
Interest	2,474,962	-	-	-	2,474,962
Letter of credit fees	61,277	-	-	-	61,277
SCA project expenses	-	-	-	-	-
Amortized interest	284,218	-	-	-	284,218
Depreciation and amortization	1,516,874	21,754	-	21,754	1,538,628
Total Expenses	<u>\$12,203,237</u>	<u>\$ 1,283,513</u>	<u>\$ 290,666</u>	<u>\$1,574,179</u>	<u>\$13,777,416</u>

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

Cash Flows From Operating Activities

Decrease in net assets	\$ (103,800)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation and amortization	1,538,628
Amortized interest	284,218
Net loss assumed from acquired entities	270,401
Unrealized loss on investments	11,336
Realized gain on sale of investments	(67)
Unrealized gain on interest rate swaps	(9,330)
Donated interest	(211,341)
Increase in:	
Contributions receivable	(994,078)
Interest receivable	(304,235)
Accounts receivable and other assets	(2,292,197)
Increase in:	
Accounts payable and other accrued expenses	127,332
Deferred revenue	150,155
Deferred rent payable	56,202
Tenants' security deposits and reserves	420,643
Net Cash Used By Operating Activities	<u>(1,056,133)</u>

Cash Flows From Investing Activities

Purchase of investments	(18,259,930)
Redemption of investments	21,270,443
Purchase of real estate and construction costs	(28,714,035)
Notes receivable	682,941
Office improvements, equipment and deferred leasing costs	(47,347)
Construction accounts payable	(2,765,359)
Net Cash Used By Investing Activities	<u>(27,833,287)</u>

Cash Flows From Financing Activities

Proceeds from loans payable	34,214,499
Deferred financing costs	(278,136)
Repayments of loans payable	(1,571,109)
Investment from Civic Builders, Inc. (non-Civic entities)	(3,000)
Investment in joint venture	(425,000)
Distribution to Civic Builders, Inc. (non-Civic entities)	245
Net Cash Provided By Financing Activities	<u>31,937,499</u>

Net increase in cash and restricted cash	3,048,079
Cash and restricted cash, beginning of year	<u>8,635,350</u>
Cash and Restricted Cash, End of Year	<u><u>\$11,683,429</u></u>

Supplemental Disclosure of Cash Flow Information

Interest paid	<u><u>\$ 2,670,226</u></u>
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See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

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 Fund Manager 3 LLC; Civic QB LLC; Civic Saratoga LLC; Civic Sherman LLC; BVP Investment Fund 1 LLC; BVP Investment Fund 2 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, 2020 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.

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, 2020

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 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 Civic. 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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

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.

h - Contributions Receivable

Contributions are recognized when the donor makes a promise to give to Civic, that is, in substance, unconditional. Conditional promises to give, that is, those with a measurable performance-related or other barrier and right of return of assets transferred or release of a promisor's obligation to transfer assets in the future are not recognized until the conditions on which they depend have been met.

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. Amounts received that are designated for future periods and 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 13a). 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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

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

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 14). The related liability or asset are reported at fair value in the consolidated statements of financial position within level 3 (Note 15), and unrealized gains or losses are included in the consolidated statements of activities.

m - Revenue Recognition

Civic has multiple revenue streams that are accounted for as exchange transactions including, development fees, sponsor fees, consulting income and management fees. Revenues are recognized when control of the promised services is transferred to customers in an amount that reflects the consideration Civic expects to be entitled to in exchange for these goods or services. Civic records deferred revenue in situations when amounts are collected, but the revenue recognition criteria outlined below are not met. Such revenue is recognized when all criteria are subsequently met.

Development fees, consulting income and management fees are recognized as revenue in the period that these services are provided.

Sponsor fees are recognized as revenue in the period that Civic sub-allocates its New Market Tax Credit allocations.

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 consolidated financial statements of Civic have been prepared in accordance with accounting principles generally accepted in the United States, which require Civic to report information regarding its consolidated financial position and consolidated 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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

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

o - Financial Statement Presentation (continued)

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, whereby the donor has stipulated the funds be maintained in perpetuity.

p - Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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"), Civic Concourse Village Corporation 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.

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; Civic Fund Manager II LLC; Civic Fund Manager 3 LLC; Civic QB LLC; Civic Saratoga LLC; Civic Sherman LLC; BVP Investment Fund 1 LLC and BVP Investment Fund 2 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 BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

r - New Accounting Pronouncements

During 2020, Civic adopted Accounting Standards Update ("ASU") 2019-09, *Revenue from Contracts with Customers* (Topic 606). The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. Adoption of this standard had no impact on the financial statements.

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, 2021. Civic is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements.

s - Subsequent Events

Civic has evaluated subsequent events through April 26, 2021, the date that the financial statements are considered available to be issued.

Note 2 - Restricted Cash

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows at December 31, 2020:

Cash	\$ 4,681,821
Cash restricted by Board of Directors	2,000,000
Restricted cash for tenant security deposits and tenant reserve accounts	<u>5,001,608</u>
Total Cash and Restricted Cash Shown in the Statement of Cash Flows	<u>\$11,683,429</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

Note 3 - 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's consolidated financial assets as of December 31, 2020 that are available 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	\$ 4,681,821
Cash restricted by the Board of Directors	2,000,000
Restricted cash for tenant security deposits and tenant cash reserves	5,001,608
Investments	13,820,518
Contributions receivable	1,044,578
Other assets - accounts and interest receivables	1,721,202
Notes receivable	20,498,674
Mortgage escrow deposit	<u>500,000</u>
Total Financial Assets	49,268,401
Less: Amounts not Available to be Used within One Year:	
Restricted cash and investments held as tenants' security deposits and loan funding reserves	(2,710,439)
Interest receivable due in excess of one year	(584,265)
Net assets with donor restrictions, subject to expenditure specific purposes or passage of time	(9,542,324)
Cash restricted by the Board of Directors	(2,000,000)
Notes receivable - non current	(8,466,024)
Mortgage escrow	<u>(500,000)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$25,465,349</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 4 - Net Assets

Net Assets Without Donor Restrictions

The Board of Directors has established a \$2 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	\$ 8,923,592
Subject to passage of time	<u>2,039,784</u>
	<u>\$10,963,376</u>

Note 5 - Contributions Receivable

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

At December 31, 2020, 96% of contributions receivable were from one donor.

During the year ended December 31, 2020, Civic received approximately 60% of its contributions from two donors.

In October 2019, Civic received notification for a grant of \$10,200,000 from the U.S. Department of Education's Credit Enhancement for Charter School Facilities Grants Program. This grant is conditional as both parties need to agree to certain performance obligations. Accordingly, this grant has not been accrued at December 31, 2020.

Note 6 - Investments

Investments, which are classified as Level 1 in the fair value hierarchy, consist of the following at December 31, 2020:

	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 6,699,420	\$ 6,680,814
Certificates of deposit	<u>7,113,000</u>	<u>7,139,704</u>
Total	<u>\$13,812,420</u>	<u>\$13,820,518</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

Note 7 - Real Estate

Real estate consists of:

Land	\$ 5,893,300
Building and leasehold improvements	<u>70,544,262</u>
	76,437,562
Less: Accumulated depreciation and amortization	<u>(7,836,623)</u>
	<u>\$68,600,939</u>

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 and renovated and constructed the properties and are subleasing them to two charter schools.

Note 8 - 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 9 - 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.

- (a) As a CDE, Civic has been awarded \$173,000,000 of NMTC allocation authority by the Community Development Financial Institutions Fund, including \$55,000,000 in 2020. As of December 31, 2020, Civic has sub-allocated \$157,000,000 of NMTC allocation to fifteen limited liability companies certified as subsidiary CDEs ("Sub-CDE"), \$39,000,000 of which was sub-allocated in 2020 and \$32,000,000 of which was sub-allocated in 2019. 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") in 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.

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

DECEMBER 31, 2020

Note 9 - New Markets Tax Credit Transactions (continued)

- (b) As a developer of charter school facilities, Civic formed QALICBs which used QLICI proceeds to fund construction of projects eligible for NMTC financing. For these development projects, Civic provided the NMTC investor with a limited indemnity in the event that specified actions or inactions by Civic or the QALICB 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 property management and development fees. For some of these development projects, Civic formed certain wholly owned subsidiaries that lent to investment funds (Note 10), that in turn, made QEIs in the CDEs that provided the QLICIs.

On August 25, 2020, at the end of the seven-year credit allowance period for one of the NMTC financings, an investor put its ownership interest in an investment fund entity ("entity") to Civic in exchange for \$1,000. As part of this transaction, Civic assumed \$2,568,787 of notes receivable which were immediately forgiven. This entity has been dissolved as of December 31, 2020.

Excess of assets over liabilities assumed	\$2,568,787
Forgiveness of notes receivable	<u>(2,568,787)</u>
Net loss assumed from acquired entities	<u>\$ -</u>

On November 23, 2020, at the end of the seven-year credit allowance period for another NMTC financing, an investor put its ownership interest in two investment funds entities ("entities") to Civic in exchange for \$2,000. As part of this transaction, Civic assumed \$14,540,000 of notes receivable due from an unrelated entity and \$9,383,051 of notes payable to two Civic subsidiaries. The notes payable to the two Civic subsidiaries have been eliminated at consolidation. During the period November 23, 2020 through December 31, 2020, the following transactions have been recorded in the accompanying consolidated financials for these entities:

Excess of assets over liabilities assumed	\$5,156,949
Forgiveness of notes receivable	<u>(5,427,350)</u>
Net loss assumed from acquired entities	<u>\$ (270,401)</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 10 - Notes Receivable

Notes receivable consist of:

On November 23, 2020, Civic acquired a subsidiary (Note 8) which holds three notes in the amounts of \$3,978,439 ("Note A1"), \$2,871,562 ("Note B1"), and \$3,439,999 ("Note C1"). All of the notes bear interest at a rate of 3.376% per annum. Note A1 requires payments of interest only, commencing on December 10, 2020 through May 10, 2021. On May 31, 2021, the maturity date, Note A1 requires payment of all principal and any unpaid accrued interest. Notes B1 and C1 require payments of interest only, commencing on December 10, 2020 through December 10, 2023. Commencing January 10, 2024, Note B1 requires monthly payments of principal and interest in amounts escalating from \$9,093 to \$16,074 through December 10, 2048. Commencing January 10, 2024, Note C1 requires monthly payments of principal and interest in amounts escalating from \$10,893 to \$19,256 through December 10, 2048. On December 31, 2048, the maturity date, Notes B1 and C1 require payment of the remaining unpaid principal and any unpaid accrued interest. At December 31, 2020, the subsidiary determined that \$3,634,495 was uncollectable. Accordingly, Civic recognized the uncollectible amount as part of net loss assumed from acquiring the entity in the accompanying consolidated statements of activities.

\$ 6,655,505

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 on August 31, 2058. This loan was made in connection with the financing of a charter school built by a subsidiary of Civic.

5,174,999

A loan bearing interest at 1% per annum requiring monthly interest payments through maturity on December 31, 2042. The principal is due at maturity.

3,200,000

Sub-total (carried forward)

15,030,504

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 10 - Notes Receivable (continued)

Sub-total (brought forward)	\$15,030,504
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On November 23, 2020, Civic acquired a subsidiary (Note 8) which holds two notes in the amounts of \$2,457,145 ("Note A2") and \$1,792,855 ("Note C2"). Both notes bear interest at a rate of 4.49% per annum. Note A2 requires payments of interest only, commencing on December 10, 2020 through May 10, 2021. On May 31, 2021, the maturity date, Note A2 requires payment of all principal and any unpaid accrued interest. Note C2 requires payments of interest only, commencing on December 10, 2020 through December 10, 2023. Commencing January 10, 2024, Note C2 requires monthly payments of principal and interest in amounts escalating from \$7,551 to \$10,425 through December 10, 2048. On December 31, 2048, the maturity date, Note C2 requires payment of the remaining unpaid principal and any unpaid accrued interest. At December 31, 2020, the subsidiary determined that \$2,457,145 was uncollectable. Accordingly, Civic recognized the uncollectible amount as part of net loss assumed from acquiring the entity in the accompanying consolidated statements of activities.

2,457,145

A loan bearing interest at 1.65% per annum requiring monthly interest payments 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 12).

2,259,000

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.

322,625

A loan bearing interest at 1% per annum requiring monthly interest payments 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 5.75% per annum 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.

196,500

Sub-total (carried forward)	<u>20,498,674</u>
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CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 10 - Notes Receivable (continued)

Sub-total (brought forward) \$20,498,674

Two loans bearing interest at 5.446% per annum requiring monthly interest payments 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 12). On November 23, 2020, Civic exercised its call option and acquired the entity (the "Entity") that borrowed these funds. As a result, the Entity became a Civic subsidiary and the notes receivable and loans payable have been eliminated at consolidation at December 31, 2020. -

A loan bearing interest at 1.22% per annum requiring monthly interest payments 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 12). On November 23, 2020, Civic exercised its call option and acquired the entity (the "Entity") that borrowed these funds. As a result, the Entity became a Civic subsidiary and the note receivable and loan payable have been eliminated at consolidation at December 31, 2020. -

A loan bearing interest at 6.5% per annum. Through December 31, 2024, monthly interest 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. This note was fully repaid on August 25, 2020. -

A loan bearing interest at 6.5% per annum requiring monthly interest payments through July 31, 2020. Commencing August 31, 2020, monthly payments of principal and interest will be due through maturity on December 31, 2042. This note was fully repaid on August 25, 2020. -

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. This note was fully repaid on August 14, 2020. -

Total Notes Receivable 20,498,674

Less: Current portion (12,032,650)

Non-Current Portion \$ 8,466,024

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 11 - 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>	
2021	\$ 9,832,000
2022	10,025,000
2023	10,062,000
2024	10,347,000
2025	10,193,000
Thereafter	235,696,000

Note 12 - 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.

\$1,798,819

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. 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.

2,545,298

Sub-total (carried forward)

4,344,117

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 12 - Loans Payable (continued)

Sub-total (brought forward) \$ 4,344,117

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 on February 22, 2023 when the unpaid principal balance is due. This loan was fully repaid on November 30, 2020.

-

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 14 and 15). Interest and a fixed principal amount of \$8,512 is due monthly through maturity on May 19, 2021.

3,869,275

A Civic subsidiary entered into an amended mortgage loan agreement with a CDFI to borrow an additional \$3,942,555 and to refinance its outstanding mortgage payable of approximately \$4,829,000 into a combined loan (the "Mortgage") totaling \$8,772,000. This Mortgage bears interest at a rate of 4.9% and requires an interest only payment during April 2020. Commencing May 1, 2020, the Mortgage requires monthly payments of \$51,950, including interest and principal through its maturity on March 1, 2044. The Mortgage is secured by the subsidiary's real estate, related rents and restricted cash.

8,641,091

A Civic subsidiary, along with 600 Associates LLC ("Developer") and 600 East 156th Street LIHTC LLC ("Owner"), entered into a construction loan of up to \$5,477,710. The loan required interest only payments at a rate 6.34% through maturity on June 28, 2020. On November 6, 2020, the subsidiary entered into an amended and restated loan agreement (the "Loan") in the amount of \$7,000,000, and releasing the Developer and the Owner from all obligations under the construction loan. The Loan required payments of simple interest at a rate of 4.22% from November 6, 2020 through December 31, 2020. Commencing January 1, 2021, the Loan will require monthly payments of \$37,804, including principal and interest at the rate of 4.22% per annum, through maturity on December 1, 2045.

7,000,000

Sub-total (carried forward) 23,854,483

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 12 - Loans Payable (continued)

Sub-total (brought forward)	\$23,854,483
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Loan payable to a private foundation aggregating \$6,000,000, for the purpose of financing the development of five charter schools, the projects (Note 5). The loan is non-interest bearing and the principal is due upon maturity on December 9, 2027. Interest has been imputed and recognized as contributions to the Civic subsidiary and netted against the loan payable during the year ended December 31, 2020 for \$211,341. Interest expense recognized during the year ended December 31, 2020 was \$159,395.

5,010,216

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 required payment of interest only at a rate of 6.8% through March 10, 2020. Commencing on April 10, 2020, the notes 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.

3,642,886

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

Sub-total (carried forward)	<u>55,982,585</u>
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55,982,585

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 12 - Loans Payable (continued)

Sub-total (brought forward)	\$55,982,585
<p>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, Civic has entered into an interest-rate swap agreement with regard to the senior loan. The notes will require payments of interest only, from the time it is drawn, through January 15, 2021. Commencing in February 15, 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.</p>	
	14,569,396
<p>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.</p>	
	5,952,940
<p>On April 17, 2020, Civic received a loan totaling \$423,982 under the Paycheck Protection Program administered by the U.S. Small Business Administration. The loan bears interest at 1% per annum, has a maturity of two years, and may be forgiven if Civic meets certain employee retention requirements and funds are used for eligible expenses. Civic expects the full amount of the loan to be forgiven.</p>	
	423,982
<p>Civic has a \$1,000,000 line of credit (the "Line") with a bank. The Line bears interest of 3% and expires on February 29, 2024. There was no outstanding balance at December 31, 2020.</p>	
	<u>-</u>
Total Loans Payable	76,928,903
Less: Unamortized deferred financing costs	<u>(1,771,233)</u>
Mortgages payable, less unamortized deferred financing costs	75,157,670
Less: Current portion	<u>(5,937,655)</u>
Non-Current Portion	<u><u>\$69,220,015</u></u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 12 - Loans Payable (continued)

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

<u>Year Ending December 31,</u>	
2021	\$ 5,938,000
2022	1,823,000
2023	1,472,000
2024	19,284,000
2025	16,166,000

Interest incurred on these loans was \$2,931,852 during 2020, of which \$459,890 was capitalized during the year ended December 31, 2020. Interest incurred during the year ended December 31, 2020 includes \$159,395, of imputed interest that is recognized as interest expense.

As described in Note 17, \$5,359,000 of the U.S. Department of Education grant has been used as credit enhancement for nine of the loans payable.

Note 13 - 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>	
2021	\$ 364,000
2022	373,000
2023	384,000
2024	408,000
2025	419,000
Thereafter, through March 31, 2029	1,436,000

Office rent expense was \$391,466 for the year ended December 31, 2020.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 13 - Commitments and Contingencies (continued)

- b - Civic leases portions of eleven properties which are subleased to twelve 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>	
2021	\$ 3,477,000
2022	3,585,000
2023	3,704,000
2024	3,855,000
2025	3,962,000
Thereafter	113,252,000

- 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, 2020 was \$122,888.
- d - In connection with one of Civic subsidiaries' projects, there remained approximately \$57,000 of construction contract commitments.
- e - Civic has entered into loan guaranty agreements (the "Guaranties"), totaling \$11,787,913, with lenders that made loans to two unrelated entities (the "Entity") in connection with charter school development projects. 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 Entities.
- 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 has entered into a lease, secured financing, will construct a building, and has entered into a long-term sublease with a charter school for the charter school portion of the building. The construction will commence in June 2021 and is expected to be completed by June 2023. As of December 31, 2020, Civic has made capital contributions of \$425,000 to the joint venture development. There was no income or loss reported in the joint venture entity during the year ended December 31, 2020.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 14 - Interest Rate Swaps

At December 31, 2020, 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 12). 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.

Note 15 - 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, 2020, the changes in assets and liabilities measured using unobservable inputs were as follows:

Interest rate swaps, beginning of year	\$(46,053)
Change in fair value of interest rate swap	<u>9,330</u>
Interest Rate Swaps, End of Year	<u><u>\$(36,723)</u></u>

Note 16 - Concentration of Credit Risk

Civic maintains its cash, restricted cash and unrestricted and restricted investments at financial institutions, in money market funds, United States Treasury notes and certificates of deposits. At December 31, 2020, \$2,044,543 was invested in money market mutual funds that invest in United States Treasury securities. See Note 6 regarding investments in United States Treasury notes and certificates of deposits.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 17 - 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 18 - Risks and Uncertainties

In March 2020, the United States declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. Management is currently evaluating the potential impact that the resulting economic uncertainties will have on Civic's operations, but 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, 2020

<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	\$7,014,849

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, 2020. 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 \$8,865,063 of which, \$7,014,849 was deployed during 2020.

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 (Trustees) 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, 2020, 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 December 31, 2020.

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 26, 2021



**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, 2020. 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, 2020.

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 26, 2021

CIVIC BUILDERS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2020

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(s) tested as major programs 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