Consolidated Financial Statements and Audit Reports and Supplementary Information Related to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards
For the Years Ended December 31, 2022 and 2021
With Independent Auditor's Report



Consolidated Financial Statements and Audit Reports and Supplementary Information Related to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards For the Years Ended December 31, 2022 and 2021

TABLE OF CONTENTS

	Page(s)
INDEPENDENT AUDITOR'S REPORT	1–4
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	5–6
Consolidated Statements of Activities	7–8
Consolidated Statements of Functional Expenses	9–10
Consolidated Statements of Cash Flows	11–12
Notes to Consolidated Financial Statements	13–35
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	36
Notes to the Schedule of Expenditures of Federal Awards	37
INDEPENDENT AUDITOR'S 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	38–39
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	40–42
Schedule of Findings and Questioned Costs	43



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Civic Builders, Inc. (a not-for-profit organization) and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Civic Builders, Inc. and Subsidiaries as of December 31, 2022, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Civic Builders, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Notes 1 and 13 to the consolidated financial statements, in the year ended December 31, 2022, Civic Builders, Inc. and Subsidiaries adopted new accounting guidance as it relates to leases. Our opinion is not modified with respect to this matter.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Civic Builders, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Civic Builders, Inc. and Subsidiaries' internal control.
 Accordingly, no such opinion is expressed.



- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Civic Builders, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Report on Summarized Comparative Information

The consolidated financial statements of Civic Builders, Inc. and Subsidiaries for the year ended December 31, 2021 were audited by other auditors whose report dated April 27, 2022 expressed an unmodified opinion on those statements.

Report on Supplementary 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 GAAS. 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 27, 2023 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 solely 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 the effectiveness of Civic Builders, Inc. and Subsidiaries' 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.

April 27, 2023

Mitchell: Titus, LLP

Consolidated Statements of Financial Position As of December 31, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2 and 16)	\$ 9,470,713	\$ 17,455,610
Cash restricted by the Board of Directors	φ σ,σ,σ	Ψ 11,100,010
(Notes 2 and 16)	2,000,000	2,000,000
Restricted cash (Notes 2, 12 and 16)	14,407,663	1,380,077
Unrestricted investments (Notes 6 and 16)	7,937,040	-
Contributions receivable (Note 5)		
Without donor restrictions	361,169	20,750
With donor restrictions	961,111	936,164
Accounts receivable and other assets	1,317,187	1,379,726
Notes receivable (Note 10)	5,271,843	4,900,000
Total current assets	41,726,726	28,072,327
Non-current assets		
Restricted cash (Notes 2, 12 and 16)	5,650,759	2,407,656
Restricted investments (Notes 6, 16 and 17)	17,210,816	19,454,417
Other assets	2,331,518	2,430,208
Investment in joint venture (Note 13)	12,286	140,235
Investments in New Markets Tax Credit entities		
(Note 10)	13,500	13,500
Real estate, at cost, net of accumulated amortization		
and depreciation (Notes 7 and 8)	94,896,191	80,284,966
Interest receivable	1,082,099	833,182
Notes receivable (Note 10)	23,824,699	19,508,099
Mortgage escrow deposit (Note 12)	500,000	500,000
Interest rate swap (Notes 14 and 15)	2,019,233	-
Deferred leasing costs, net of accumulated		
amortization of \$699,183 at 2022 and \$605,477	4.450.000	4 405 500
at 2021, respectively	1,159,963	1,195,503
Accrued rent receivable	3,676,554	-
Right of use asset (Note 13)	58,047,616	-
Office improvements and equipment, at cost, net of accumulated depreciation	58,079	58,635
Total non-current assets	210,483,313	126,826,401
Total assets	\$ 252,210,039	\$ 154,898,728

Consolidated Statements of Financial Position *(continued)* As of December 31, 2022 and 2021

	2022	2021	
LIABILITIES AND NET ASSETS			
LIABILITIES Current liabilities			
Accounts payable and other accrued expenses Construction accounts payable Deferred revenue Loans payable (Note 12)	\$ 651,362 3,015,069 180,945 6,928,057	\$ 742,462 239,069 321,525 1,634,966	
Total current liabilities	10,775,433	2,938,022	
Non-current liabilities Loans payable (Note 12) Lease liability (Note 13) Deferred rental income liability Deferred rent payable Interest rate swaps (Notes 14 and 15) Tenants' security deposits and reserves Total non-current liabilities Total liabilities	119,648,019 59,871,771 23,397 - - - 4,839,957 184,383,144 195,158,577	93,835,063 - - 226,004 639,781 4,458,565 99,159,413 102,097,435	
COMMITMENTS AND CONTINGENCIES (Notes 9, 12, 13, 14, 15, 18 and 19)			
NET ASSETS Without donor restrictions Operating Board-designated cash reserve (Note 4)	34,266,556 2,000,000	29,277,440 2,000,000	
Total without donor restrictions	36,266,556	31,277,440	
With donor restrictions (Note 4)	20,784,906	21,523,853	
Total net assets	57,051,462	52,801,293	
Total liabilities and net assets	\$ 252,210,039	\$ 154,898,728	

Consolidated Statements of Activities Years Ended December 31, 2022 and 2021

	2022			2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS Revenue, gains and other support (excluding public				
support)			_	
Rental income (Note 11)	\$	10,227,245	\$	9,757,647
Rental income - noncash (Note 11)		3,653,157		-
Interest income		1,429,853		925,608
Development fees		365,000		85,500
Sponsor fees (Note 9)		-		800,000
Forgiveness of loan payable		- ()		423,982
Unrealized gain (loss) on investment		(5,968)		(19,771)
Realized gain on sale of investments		(184)		1,549
Unrealized gain (loss) on interest rate swaps				
(Notes 14 and 15)		2,659,014		(603,058)
Consulting income		-		117,550
Management fees (Note 9)		3,105,401		2,858,757
Other income				13,804
Total revenue, gains and other support (excluding public support and net loss assumed from				
acquired entities)		21,433,518		14,361,568
EXPENSES Program services				
Rental and project development		17,154,392		15,029,716
Supporting services				
Management and general		1,678,988		1,268,721
Fundraising		356,342		308,800
Total supporting services		2,035,330		1,577,521
Total expenses		19,189,722		16,607,237
Decrease in net assets without donor restrictions (excluding public support and net loss assumed				
from acquired entities)		2,243,796		(2,245,669)

Consolidated Statements of Activities *(continued)* Years Ended December 31, 2022 and 2021

	2022	2021		
EXPENSES (continued) Public support Contributions (Note 5) Net assets released from restrictions	\$ 1,098,522 1,774,453	\$ 1,291,195 1,184,684		
Total public support	2,872,975	2,475,879		
Increase in net assets without donor restrictions (including public support, excluding other losses)	5,116,771	230,210		
Other losses Loss on investment in joint venture (Note 13)	(127,949)	(159,765)		
Increase in net assets without donor restrictions	4,988,822	70,445		
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS				
Contributions (Note 5) Interest income	1,090,011	11,743,800 59,317		
Realized loss on sale of investments	19,453 (11,174)	(1,250)		
Unrealized loss on investments	(43,467)	(53,446)		
Investment fees	(19,317)	(3,260)		
Net assets released from restrictions (Decrease) increase in net assets with donor	(1,774,453)	(1,184,684)		
restrictions	(738,947)	10,560,477		
Increase in net assets	4,249,875	10,630,922		
Distribution to Civic Builders, Inc. (non-Civic entities) Net assets, beginning of year	294 52,801,293	339 42,170,032		
Net assets, end of year	\$ 57,051,462	\$ 52,801,293		

Consolidated Statement of Functional Expenses For the Year Ended December 31, 2022

Supporting Services Program Management Total Services and General **Total Expenses Fundraising** 2,290,017 \$ 778,361 \$ 238,321 1,016,682 3,306,699 Salaries \$ Payroll taxes and benefits 380,925 39,643 169,117 550,042 129,474 Consulting services 253,069 163,380 163,380 416,449 **Facilities** 5,646,180 113,649 34,797 148,446 5,794,626 Grant expense 440.085 440.085 31,785 31,785 290,104 Insurance 258,319 Non recoverable pre-development 144,275 144,275 Professional fees 99,674 342,294 342,294 441,968 21,768 21,768 42,204 Marketing 20,436 75,828 Supplies and general 151,214 60,092 15,736 227,042 58,395 6,077 45,194 103,589 Travel 39,117 Loan loss provision 14,632 14,632 4,572,536 Interest 4.572.536 7,778 7,778 Letter of credit fees 342,351 342,351 Amortized interest Depreciation and amortization 2,474,506 20,836 20,836 2,495,342 **Total expenses** 17,154,392 \$ 1,678,988 \$ 356,342 \$ 2,035,330 19,189,722

Consolidated Statement of Functional Expenses For the Year Ended December 31, 2021

Supporting Services Management **Program** Total Services and General **Total Expenses Fundraising** 2,568,394 \$ 664,448 \$ 217,367 \$ 881,815 3,450,209 Salaries Payroll taxes and benefits 119,270 39,018 619,323 461,035 158,288 Consulting services 496,807 58,285 58,285 555,092 **Facilities** 4,090,843 88,239 4,207,877 28,795 117,034 Grant expense 31,557 31.557 222,085 26,158 26,158 248,243 Insurance Non recoverable pre-development 74,536 74,536 Professional fees 124,869 242,525 242,525 367,394 10.295 10,295 27,370 Marketing 17.075 56,308 Supplies and general 165,649 44,574 11,734 221,957 Travel 18,801 5,321 1,591 6,912 25,713 Interest 3,975,773 3,975,773 Letter of credit fees 57,534 57,534 269,699 269,699 Amortized interest Depreciation and amortization 2,455,059 19,901 19,901 2,474,960 **Total expenses** 15,029,716 \$ 1,268,721 \$ 308,800 \$ 1,577,521 \$ 16,607,237

Consolidated Statements of Cash Flows For the Years Ended December 31, 2022 and 2021

	2022	2021		
CACH ELONG EDOM ODEDATINO ACTIVITIES				
CASH FLOWS FROM OPERATING ACTIVITIES	Φ 4040075	Φ 40.000.000		
Increase (decrease) in net assets	\$ 4,249,875	\$ 10,630,922		
Adjustments to reconcile increase (decrease) in net				
assets to net cash provided by operating activities				
Depreciation and amortization	2,495,342	2,474,960		
Amortized interest	342,355	269,699		
Loss on investment in joint venture	127,949	159,765		
Provision for uncollectible notes receivable	14,632	-		
Unrealized loss on investments	49,435	73,217		
Realized gain on sale of investments	11,358	(299)		
Unrealized (gain) loss on interest rate swaps	(2,659,014)	603,058		
Donated interest	172,524	168,084		
Forgiveness of loan payable	-	(423,982)		
(Increase) decrease in				
Contributions receivable	(365,366)	87,664		
Interest receivable	(248,917)	(193,600)		
Accounts receivable and other assets	161,229	1,616,829		
Accrued rent receivable	(3,676,554)	-		
Right of use asset	(58,047,616)	-		
Increase (decrease) in				
Accounts payable and other accrued expenses	(91,100)	320,577		
Deferred revenue	(140,580)	(19,901)		
Deferred rental income liability	23,397	-		
Deferred rent payable	(226,004)	17,077		
Tenants' security deposits and reserves	381,392	597,947		
Lease liability	59,871,771			
Net cash provided by operating activities	2,446,108	16,382,017		

Consolidated Statements of Cash Flows *(continued)* For the Years Ended December 31, 2022 and 2021

		2022	2021		
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	\$	(25,285,862)	\$	(17,663,411)	
Redemption of investments	Ψ	19,531,630	Ψ	11,956,594	
Purchase of real estate and construction costs		(16,992,027)		(14,045,359)	
Notes receivable		(5,079,500)		(18,470,200)	
Collections on notes receivable		5,430,000		14,560,775	
Investment from Civic Builders, Inc. (non-Civic entities) Investment repaid to Civic Builders, Inc.		, , -		(161,000)	
(non-Civic entities)		-		287,300	
Distribution to Civic Builders, Inc. (non-Civic entities) Office improvements, equipment and deferred leasing		294		339	
costs		(78,444)		(27,231)	
Construction accounts payable		2,776,000		(1,558,468)	
Net cash used in investing activities		(19,697,909)		(25,120,661)	
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from loans payable		28,460,000		27,578,081	
Repayments of loans payable		(1,640,868)		(6,976,801)	
Deferred financing costs		(1,281,539)		(302,722)	
Net cash provided by financing activities		25,537,593		20,298,558	
Net increase in cash and restricted cash		8,285,792		11,559,914	
Cash and restricted cash, beginning of year		23,243,343		11,683,429	
Cash and restricted cash, end of year	\$	31,529,135	\$	23,243,343	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Interest paid	\$	4,868,105	\$	3,727,876	
Project costs incurred through construction accounts payable	\$	3,015,069	\$	178,626	

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Civic Builders, Inc. is a not-for-profit facilities developer and lender that provides real estate solutions for charter schools. Civic Builders, Inc. 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 Builders, Inc. 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 (collectively referred to herein as "Civic"): 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 Fund Manager LLC; Civic Fund Manager II LLC; Civic Fund Manager 3 LLC; Civic QB LLC; Civic Saratoga LLC; Civic Sherman LLC; SV-B Civic Lender LLC; Civic SB 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; Civic GO Investment Fund, LLC and certain other wholly owned limited liability companies and corporations that had no assets or liabilities at December 31, 2022 and 2021 and no activity during those years. All significant intercompany transactions have been eliminated in consolidation.

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.

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.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

- <u>Level 1:</u> 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.
- <u>Level 2:</u> 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.

Real Estate

Real estate is stated at cost and is depreciated using the straight-line method over its estimated useful life, ranging from 27 and one-half years to 40 years. 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.

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.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Deferred Revenue and Rental Income

Deferred revenue is recognized as income in the applicable period. Commencing January 1, 2022, Civic recognizes rental income on a straight-line basis over the remaining lease term. The difference between the straight-line amount and the amount actually due during the year under the lease agreement is recorded as accrued rent receivable and rental income – noncash in the accompanying financial statements.

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.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Rent Payable

Office rent expense is recorded on a straight-line basis over the life of the lease (Note 13). 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. Effective January 1, 2022 deferred rent is presented as an offset to right to use assets as described in Note 13.

Interest Rate Swaps

Two Civic subsidiaries use interest rate swap agreements for the purpose of managing interest rate risks. The interest rate swap agreements are 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.

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.

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.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

Tax Status

Civic Builders, Inc. ("Civic"), 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.

Civic Sherman LLC is a limited liability company wholly owned by NYC Fund, and its income and expenses are combined with those of NYC Fund for income tax purposes.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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; Civic Fund Manager II LLC; Civic Fund Manager 3 LLC; Civic QB LLC; Civic Saratoga LLC; SV-B Civic Lender LLC; Civic SB LLC; Civic GO Investment Fund, 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.

New Accounting Standards

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. Effective January 1, 2022, Civic adopted this standard and the impact is described in Note 13.

Prior Year Information

For comparability purposes, certain 2021 amounts have been reclassified, where appropriate, to conform to the consolidated financial statement presentation used in 2022.

Subsequent Events

Civic has evaluated subsequent events through April 27, 2023, the date that the financial statements are considered available to be issued.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

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:

	 2022	 2021
Cash and cash equivalents Cash restricted by Board of Directors	\$ 9,470,713 2,000,000	\$ 17,455,610 2,000,000
Restricted cash for tenant security deposits, tenant reserve accounts and loan funding reserves	20,058,422	3,787,733
Total cash and restricted cash shown in the statement of cash flows	\$ 31,529,135	\$ 23,243,343

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.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 3 INFORMATION REGARDING LIQUIDITY AND AVAILABILITY (continued)

Civic's consolidated financial assets as of December 31, 2022 and 2021 available to meet cash needs for operating and capital uses within one year are summarized as follows:

	2022			2021
Financial assets at year end				
Cash and cash equivalents	\$	9,470,713	9	17,455,610
Cash restricted by the Board of Directors		2,000,000		2,000,000
Restricted cash for tenant security deposits, tenant cash,				
reserves and loan funding reserves		20,058,422		3,787,733
Investments		25,147,856		19,454,417
Contributions receivable		1,322,280		956,914
Other assets - accounts and interest receivables		2,034,251		1,883,572
Notes receivable		29,096,542		24,408,099
Mortgage escrow deposit		500,000		500,000
Total financial assets		89,630,064		70,446,345
Less: Amounts not available to be used within one year				
Restricted cash and investments held as tenants'				
security deposits and loan funding reserves		(5,574,080)		(2,995,843)
Interest receivable due in excess of one year		(1,082,099)		(833,182)
Net assets with donor restrictions, subject to				
expenditure specific purposes or passage of time		(19,484,014)		(19,715,600)
Cash restricted by the Board of Directors		(2,000,000)		(2,000,000)
Notes receivable		(29,096,542)		(19,508,099)
Mortgage escrow		(500,000)		(500,000)
Financial assets available to meet general				
expenditures within one year	\$	31,893,329	5	24,893,621

NOTE 4 NET ASSETS

Net Assets Without Donor Restrictions

The Board of Directors has established a \$2.0 million board-designated cash reserve.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 4 NET ASSETS (continued)

Net Assets With Donor Restrictions

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

		2022		2021
Operating Subject to expenditure for specified	\$	19,074,619	\$	19,672,153
purposes Subject to passage of time	Ψ	1,710,287	Ψ	1,851,700
Total net assets with donor restrictions	\$	20,784,906	\$	21,523,853

NOTE 5 CONTRIBUTIONS RECEIVABLE

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

At December 31, 2022, 92% of contributions receivable were from two donors, and at December 31, 2021, 97% of contributions receivable were from one donor.

During the year ended December 31, 2022, Civic received approximately 70% of its contributions from three donors, and during the year ended December 31, 2021, Civic received approximately 78% of its contributions from one donor.

NOTE 6 INVESTMENTS

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

	2		022		 2	021	
	Cost		Fair Value		Cost		Fair Value
U.S. Treasury notes Certificates of deposit	\$	24,800,620 490,000	\$	24,673,573 474,283	\$ 18,550,104 979,000	\$	18,477,818 976,599
Total	\$	25,290,620	\$	25,147,856	\$ 19,529,104	\$	19,454,417

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 7 REAL ESTATE

Real estate consists of:

		2022		2021
Land	\$	27,745,071	\$	10,772,654
Building and leasehold improvements		79,729,877		79,710,267
Total land, building and leasehold improvements		107,474,948		90,482,921
Less: Accumulated depreciation and amortization		(12,578,757)		(10,197,955)
Real estate, at cost, net of accumulated depreciation and				
amortization	_\$_	94,896,191	_\$_	80,284,966

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

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 9 NEW MARKETS TAX CREDIT TRANSACTIONS (continued)

As a CDE, Civic has been awarded \$228,000,000 of NMTC allocation authority by the Community Development Financial Institutions Fund, including \$55,000,000 in 2022. As of December 31, 2022, Civic has sub-allocated \$173,000,000 of NMTC allocation to seventeen limited liability companies certified as subsidiary CDEs ("Sub-CDE"), \$16,000,000 of which was sub-allocated in 2021. 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 ("QLICIs") 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.

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 December 15, 2021, 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 \$2,000,914 of loan receivable, which was immediately forgiven.

On December 23, 2022, 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 \$7,975,000 of notes receivable due from an unrelated entity and \$232,900 of notes payable to Civic. The notes receivable balance has been reduced by \$2,703,157 as a loss reserve and notes payable to Civic has been eliminated in consolidation.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 10 NOTES RECEIVABLE

Notes receivable consist of:

	2022	2021
A loan bearing interest at 6.2382% per annum requiring monthly interest payments through May 20, 2028. On June 20, 2028, a principal payment of \$12,024,690 is due and an interest only payment is due on July 20, 2028. Commencing August 20, 2028, monthly payments of principal and interest will be due through maturity on September 30, 2053. The subsidiary borrowed funds from a bank to make this loan (Note 12).	\$ 13,570,200	\$ 13,570,200
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	5,174,999
A loan bearing interest at 5% per annum requiring monthly interest payments through maturity on September 1, 2022. The principal is due at maturity.	-	4,900,000
A loan bearing interest at 1% per annum requiring monthly interest payments through maturity on December 31, 2042.	-	530,000
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. On December 23, 2022, Civic acquired the loan which was eliminated in consolidation for the year ended December		
31, 2022.	- 40.745.400	232,900
Sub-total (carried forward)	18,745,199	24,408,099

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 10 NOTES RECEIVABLE (continued)

	 2022	 2021
Sub-total (brought forward)	\$ 18,745,199	\$ 24,408,099
A loan bearing interest at 0.50% per annum. Commencing June 25, 2022, quarterly payments of interest are due through June 30, 2029. Commencing September 25, 2029, quarterly payments of principal and interest will be due through maturity on March 31, 2057. This loan was made in connection with the financing of a charter school built by a subsidiary of Civic.	5,079,500	-
On December 23, 2022, Civic acquired a subsidiary (Note 9) which holds four notes in the amounts of \$5,060,553 (Note A1); \$429,447(Note A2); \$232,900 (Note B) and \$2,252,100 (Note C). All notes bear interest at a rate of 4.97% per annum. Note A1 requires payments of interest only commencing January 10, 2023 through June 30, 2023, the maturity date. Note A2, Note B and Note C require payments of principal and interest commencing January 10, 2023 through December 31, 2045, the maturity date. On the respective maturity dates, the notes require payment of the remaining unpaid principal and any unpaid accrued interest. At December 31, 2022, the subsidiary determined that \$2,703,157 was uncollectible.	5,271,843	
Total notes receivable Less: Current portion	29,096,542 (5,271,843)	24,408,099 (4,900,000)
Non-current portion	\$ 23,824,699	\$ 19,508,099

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 11 TENANT LEASES

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

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

Year Ending December 31,	Amounts	
2023	\$ 10,891,000	
2024	12,125,000	
2025	12,006,000	
2026	12,295,000	
2027	12,560,000	
Thereafter	336,365,000	

NOTE 12 LOANS PAYABLE

Loans payable consist of:

	 2022	 2021
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.	\$ 1,363,188	\$ 1,587,303
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.	2,099,601	2,328,285
•	 	
Sub-total (carried forward)	 3,462,789	 3,915,588

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

	2022	2021
Sub-total (brought forward)	\$ 3,462,789	\$ 3,915,588
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.	8,221,756	8,436,549
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 requires monthly payments of \$37,804, including principal and interest at the rate of 4.22% per annum, through maturity on December 1, 2045.	6,670,364	6,838,653
Sub-total (carried forward)	18,354,909	19,190,790
Sub total (carried for ward)	10,004,000	10,100,100

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

	2022	2021
Sub-total (brought forward)	\$ 18,354,909	\$ 19,190,790
Loan payable to a private foundation aggregating \$6,000,000, for the purpose of financing the development of five charter schools. The loan is non-interest bearing and the principal is due upon maturity on December 9, 2027. Interest has been imputed and recognized as a contribution to the Civic subsidiary and netted against the loan payable. Interest expense recognized during the years ended December 31, 2022 and 2021 was \$172,524 and \$168,084, respectively.	5,350,824	5,178,300
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.	3,515,018	3,583,064
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		
Sub-total (carried forward)	27,220,751	27,952,154

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

	2022	2021
Sub-total (brought forward)	\$ 27,220,751	\$ 27,952,154
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	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 (Notes 14 and 15). The notes will require payments of interest only, from the time it is drawn, through January 15, 2021. Commencing on February 15, 2021, the notes require monthly payments of principal and interest through August 31, 2024. On September 15, 2024, the maturity date, the notes will require payment of the remaining unpaid principal and any unpaid accrued interest.		17,574,782
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 require monthly payments of principal and interest through September 1, 2024. On October 1, 2024, the maturity date, the notes will require payment of the remaining unpaid principal and any unpaid accrued interest.	4,989,509	5,089,022
Sub-total (carried forward)	72,860,909	74,090,958

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

	2022	2021
Sub-total (brought forward)	\$ 72,860,909	\$ 74,090,958
A Civic subsidiary entered into a loan payable to a bank in the amount of \$13,697,477 for the purpose of providing a leverage loan in a NMTC transaction (Note 10). The loan bears interest at a variable rate of LIBOR plus 2.50% through March 23, 2023 and at a fixed rate of 4.50% thereafter, and requires payments of interest only through May 31, 2023. Commencing on June 25, 2023, the loan will require monthly payments of principal and interest through May 25, 2028. On June 7, 2028, the maturity date, the notes will require payment of the remaining unpaid principal and any unpaid accrued interest.	13,697,477	13,697,477
A Civic subsidiary entered into a mortgage agreement in the amount of \$9,525,000. The mortgage bears interest at a variable rate of LIBOR plus 2.25% and requires varying monthly payments of principal and interest through maturity on October 5, 2031, at which time, the remaining outstanding principal and accrued interest will be due. Effective September 15, 2021, the subsidiary has entered into an interest-rate swap agreement with regard to the mortgage (Notes 14 and 15). The mortgage is secured by the subsidiary's real estate and related rents.	9,249,457	9,485,850
QLICI Loans 1, 2 and 3 consist of 12 building, project and acquisition notes, in the amounts of \$6,027,500 (three "Notes A"), \$15,200,000 (six "Notes B"), \$7,232,500 (three "Notes C"), for a total of \$28,460,000. All of the notes bear interest at a rate of 2.25% per year and require payments of interest only, commencing June 10, 2022 through June 30, 2029. Thereafter, quarterly payments of principal and interest will be required through March 31, 2057, the maturity date.	28,460,000	_
Sub-total (carried forward)	124,267,843	97,274,285
,		

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 12 LOANS PAYABLE (continued)

	2022	2021
Sub-total (brought forward)	\$ 124,267,843	\$ 97,274,285
A Civic subsidiary acquired a loan on December 23, 2022 in the amount of \$5,053,575. The loan requires monthly payments of \$31,018, including principal payments based on a 34-year amortization period and interest at the rate of 5.86% per annum through its maturity on June 30, 2023, at which time the outstanding principal and accrued interest will also be due. 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, 2022	5,051,672	-
	400.040.545	07.074.005
Total loans payable	129,319,515	97,274,285
Less: Unamortized deferred financing costs	(2,743,439)	(1,804,256)
Mortgages payable, less unamortized deferred financing costs Less: Current portion	126,576,076 (6,928,057)	95,470,029 (1,634,966)
Non-current portion	\$ 119,648,019	\$ 93,835,063

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

Year Ending December 31,	Amounts	
2023	\$	6,928,000
2024		23,205,000
2025		16,749,000
2026		1,640,000
2027		7,070,000
Thereafter		73,728,000

Interest incurred on these loans was \$5,079,480 and \$3,975,771 during 2022 and 2021, respectively, of which \$506,944 was capitalized in the year ended December 31, 2022. Interest incurred during the years ended December 31, 2022 and 2021 includes \$172,524 and \$168,084, respectively, of imputed interest that is recognized as interest expense.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 12 LOANS PAYABLE (continued)

As described in Note 17, \$1,195,916 of the U.S. Department of Education grant has been used as credit enhancement for two of the loans payable.

NOTE 13 COMMITMENTS AND CONTINGENCIES

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:

Year Ending December 31,	 Amounts	
2023	\$ 384,000	
2024	408,000	
2025	419,000	
2026	429,000	
2027	440,000	
Thereafter, through		
March 31, 2029	566,000	

Office rent expense was \$380,852 for each of the years ended December 31, 2022 and 2021.

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:

Year Ending December 31,		Amounts		
2023	\$	3,704,000		
2024		3,855,000		
2025		3,962,000		
2026		4,059,000		
2027		4,159,000		
Thereafter	1	105,033,000		

Effective January 1, 2022, Civic adopted the new lease accounting guidance in (ASU) 2016-02, *Leases* (Topic 842). Civic selected the package of practical expedients permitted by this guidance. Accordingly, Civic accounted for its existing operating lease as an operating lease under the new guidance, without reassessing whether the contract contains leases under the new guidance and whether classification of the operating leases would be different under Topic 842.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 13 COMMITMENTS AND CONTINGENCIES (continued)

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022 (a) a lease liability of \$60,266,904, which represents the present value of the remaining lease payments of \$143,597,288, discounted using a discount rate of 6% per year and (b) a right-of-use asset of \$60,040,900, which is equivalent to the lease liability of \$60,266,904, less deferred rent payable of \$226,004 at January 1, 2022.

For the years ended December 31, 2022 and 2021, total operating lease costs were \$5,197,484 and \$3,587,417, respectively. Operating cash flows from operating leases amounted to \$3,980,184 and \$3,622,757 for the years ended December 31, 2022 and 2021, respectively. The weighted average remaining lease term for all operating leases is approximately 27.01 years and the weighted average discount rate is 6.0%. At December 31, 2022, the undiscounted future cash flows of \$139,617,104 are discounted by a present value adjustment of \$79,745,333, resulting in an operating lease liability of \$59,871,771 reported in the accompanying balance sheet as of December 31, 2022.

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 years ended December 31, 2022 and 2021 were \$108,262 and \$118,346, respectively.

In connection with Civic subsidiaries' projects, there remained approximately \$16,366,000 of construction contract commitments as of December 31, 2022.

Civic has entered into loan guaranty agreements (the "Guaranties"), totaling \$26,452,467, 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.

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, 2022 and 2021, Civic's capital contribution balance in the joint venture development was \$300,000 each year. During 2021, Civic received a partial refund of its capital contribution from the joint venture development of \$125,000.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

NOTE 14 INTEREST RATE SWAPS

At December 31, 2022, two Civic subsidiaries had outstanding interest rate swap agreements with two commercial banks effective January 15, 2021 and September 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 2.27% plus 2.5% and 3.69% interest markup rates, respectively. The interest rate swap agreements mature July 15, 2024 and October 5, 2031, respectively.

Another Civic subsidiary had an interest rate swap agreement effective November 19, 2013 and maturing May 15, 2021. This was terminated on May 8, 2021, in connection with the unwind of NMTC financing on November 23, 2020 (Note 9). The subsidiary paid an early swap breakage fee of \$27,000 in March 2021.

NOTE 15 FAIR VALUE MEASUREMENTS

Fair value measurements for investments are discussed in Note 6.

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 years ended December 31, 2022 and 2021, the changes in assets and liabilities measured using unobservable inputs were as follows:

		2022		2021	
Interest rate swaps, beginning of year Change in fair value of interest rate	\$	(639,781)	\$	(36,723)	
swap		2,659,014		(603,058)	
Interest rate swaps, end of year	\$	2,019,233	\$	(639,781)	

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 bills and certificates of deposits. At December 31, 2022, \$3,522,655 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.

Notes to Consolidated Financial Statements For the Years Ended December 31, 2022 and 2021

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). 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, 2021, Civic was awarded a second grant for \$10,200,000 through the U.S. Department of Education's Credit Enhancement for Charter School Facilities Grants Program (the "Second Grant"). The Second 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 Second Grant term will remain in effect until the later of all of the funds plus earnings have been expended or the financing facilitated by the Second Grant has been retired.

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

NOTE 18 SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2022, a Civic subsidiary entered into an agreement for the construction of a charter school for \$28,653,623 and entered into loan agreements with eight lenders totaling \$46,000,000 at interest rates ranging from 3.0% to 6.0% per annum with maturities ranging from 2030 to 2058. In connection with this project, Civic issued a loan to an unrelated corporation for \$6,100,000 which bears interest at 0.50% per annum and matures in 2053. Civic has entered into guaranty agreements for an additional \$26,550,000 in connection to this project.

Subsequent to the year ended December 31, 2022, another subsidiary sold its leasehold interest to an affiliate of its charter school occupant for a formulaic purchase price. Concurrent to the leasehold sale, two loans payable were repaid in full for \$22,165,000, the interest-rate swap agreement was terminated, the project lease was assigned to an affiliate of its charter school occupant, the sublease was terminated, and obligations of Civic and the subsidiary under those agreements concluded.



CIVIC BUILDERS, INC. AND SUBSIDIARIESSchedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Grantor/ Program Title	Federal CFDA Number	Federal Expenditures	Provided to Subrecipients
U.S. Department of Education			
Credit Enhancement for Charter School Facilities (2008 award)	84.354	\$ 3,889,916	-
Credit Enhancement for Charter School Facilities (2019 award)	84.354	3,841,608	
Subtotal U.S. Department of Education	84.354	7,731,524	
Total expenditures of Federal awards		\$ 7,731,524	\$ -

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2022

NOTE 1 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, 2021. 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 consolidated financial position, changes in net assets, or cash flows of Civic Builders, Inc. and Subsidiaries.

The total funds available for federal award activity is \$19,011,920 of which, \$7,731,524 was deployed as of December 31, 2022.

NOTE 2 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

Civic Builders, Inc. and Subsidiaries have not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



38

INDEPENDENT AUDITOR'S 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 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 not-for-profit organization) and Subsidiaries which comprise the consolidated statement of financial position as of December 31, 2022, 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 April 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the 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 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.

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Report on Compliance and Other Matters

Mitchell: Titus, LLP

As part of obtaining reasonable assurance about whether Civic Builders, Inc. and Subsidiaries' consolidated financial statements are free of 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 Civic Builders, Inc. and Subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 27, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR REPORT 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

Opinion on Each Major Federal Program

We have audited Civic Builders, Inc. and Subsidiaries' compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on Civic Builders, Inc. and Subsidiaries' major federal program for the year ended December 31, 2022. Civic Builders, Inc. and Subsidiaries' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Civic Builders, Inc. and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on their major federal program for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Civic Builders, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Civic Builders, Inc. and Subsidiaries' compliance with the compliance requirements referred to above.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Civic Builders, Inc. and Subsidiaries' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Civic Builders, Inc. and Subsidiaries' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Civic Builders, Inc. and Subsidiaries' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Civic Builders, Inc. and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Civic Builders, Inc. and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Civic Builders, Inc. and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



Report on 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 a 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 in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

June 22, 2023

Mitchell: Titus, LLP

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2022

PART I—SUMMARY OF AUDITORS' RESULTS

Financial statements			
Type of report the auditor issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	Yes	X	_ No
Significant deficiency(ies) identified?	Yes	X	None reported
Federal awards			
Internal control over major federal programs:			
Material weakness(es) identified?	Yes	X	_ No _ None reported
Significant deficiency(ies) identified?	Yes	X	None reported
Type of auditor's report issued on compliance for major federal programs (unmodified, qualified, adverse, or disclaimer):	U	nmod	ified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes	X	_ No
Identification of major federal programs:			
CFDA Number(s)	Name of Federal Program or Cluster		
84.354	Credit Enhancement for Charter School Facilities		
Dollar threshold used to distinguish between Type A and Type B programs:	:	\$ 750,0	000
Auditee qualified as a low-risk auditee?	XYes		_ No

SECTION II—FINANCIAL STATEMENT FINDINGS

The audit revealed no findings.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The audit revealed no findings nor questioned costs.

