

CIVIC BUILDERS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020



INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Civic Builders, Inc. (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Civic Builders, Inc. and Subsidiaries as of December 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 18 to the financial statements, in March 2020, the United States of America declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. Our opinion is not modified with respect to that 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 financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted 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.

Lotz + Carr, LLP

New York, New York
April 27, 2022

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents (Notes 1b, 2 and 16)	\$ 17,455,610	\$ 4,681,821
Cash restricted by the Board of Directors (Notes 1b, 2 and 16)	2,000,000	2,000,000
Restricted cash (Notes 1b, 2, 12, and 16)	1,380,077	1,237,685
Unrestricted investments (Notes 1c, 1d, 6 and 16)	-	6,153,771
Contributions receivable (Notes 1h and 5)		
Without donor restrictions	20,750	44,578
With donor restrictions	936,164	1,000,000
Accounts receivable and other assets	1,379,726	3,059,705
Interest receivable	-	55,317
Notes receivable (Note 10)	4,900,000	12,032,650
Total Current Assets	28,072,327	30,265,527
Non-Current Assets		
Restricted cash (Notes 1b, 2, 12, and 16)	2,407,656	3,763,923
Restricted investments (Notes 1c, 1d, 6, 16 and 17)	19,454,417	7,666,747
Other assets	2,430,208	2,367,058
Investment in joint venture (Note 13f)	140,235	425,000
Investments in New Markets Tax Credit entities (Note 9)	13,500	14,800
Real estate, at cost, net of accumulated amortization and depreciation (Notes 1e, 7 and 8)	80,284,966	68,600,939
Interest receivable	833,182	584,265
Notes receivable (Note 10)	19,508,099	8,466,024
Mortgage escrow deposit (Note 12)	500,000	500,000
Deferred leasing costs, net of accumulated amortization of \$605,477 (2021) and \$511,752 (2020) (Note 1f)	1,195,503	1,277,880
Office improvements and equipment, at cost, net of accumulated depreciation (Note 1g)	58,635	62,655
Total Non-Current Assets	126,826,401	93,729,291
Total Assets	\$154,898,728	\$123,994,818
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable and other accrued expenses	\$ 742,462	\$ 421,885
Construction accounts payable	239,069	1,797,537
Deferred revenue (Note 1i)	321,525	341,426
Interest rate swaps (Notes 1l, 14 and 15)	-	36,723
Loans payable (Notes 1j and 12)	1,634,966	5,937,655
Total Current Liabilities	2,938,022	8,535,226
Non-Current Liabilities		
Loans payable (Notes 1f, 1j and 12)	93,835,063	69,220,015
Deferred rent payable (Note 1k)	226,004	208,927
Interest rate swaps (Notes 1l, 14 and 15)	639,781	-
Tenants' security deposits and reserves	4,458,565	3,860,618
Total Non-Current Liabilities	99,159,413	73,289,560
Total Liabilities	102,097,435	81,824,786
Commitments and Contingencies (Notes 9, 12, 13, 14, 15, 18 and 19)		
Net Assets		
Without Donor Restrictions		
Operating	29,277,440	29,206,656
Board-designated cash reserve (Note 4)	2,000,000	2,000,000
Total Without Donor Restrictions	31,277,440	31,206,656
With Donor Restrictions (Note 4)	21,523,853	10,963,376
Total Net Assets	52,801,293	42,170,032
Total Liabilities and Net Assets	\$154,898,728	\$123,994,818

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Changes in Net Assets Without Donor Restrictions		
Revenue, Gains and Other Support (Excluding Public Support)		
Rental income (Note 11)	\$ 9,757,647	\$ 6,100,633
Interest income	925,608	1,026,528
Development fees (Note 1m)	85,500	22,500
Sponsor fees (Notes 1m and 9)	800,000	1,950,000
Forgiveness of loan payable	423,982	-
Unrealized gain (loss) on investment	(19,771)	16,514
Realized gain on sale of investments	1,549	67
Unrealized gain (loss) on interest rate swaps (Notes 11, 14 and 15)	(603,058)	9,330
Consulting income (Note 1m)	117,550	169,451
Management fees (Notes 1m and 9)	2,858,757	2,439,016
Other income	13,804	1,859
	<u>14,361,568</u>	<u>11,735,898</u>
Expenses		
Program Services		
Rental and project development	15,029,716	12,203,237
Supporting Services		
Management and general	1,268,721	1,283,513
Fundraising	308,800	290,666
Total Supporting Services	<u>1,577,521</u>	<u>1,574,179</u>
Total Expenses	<u>16,607,237</u>	<u>13,777,416</u>
Decrease in Net Assets Without Donor Restrictions (Excluding Public Support and Net Loss Assumed from Acquired Entities)	<u>(2,245,669)</u>	<u>(2,041,518)</u>
Public Support		
Contributions (Notes 1h and 5)	1,291,195	784,734
Net assets released from restrictions	1,184,684	1,317,888
Total Public Support	<u>2,475,879</u>	<u>2,102,622</u>
Increase in Net Assets Without Donor Restrictions (Including Public Support, Excluding Other Losses)	<u>230,210</u>	<u>61,104</u>
Other Losses		
Net loss assumed from acquired entities (Note 9)	-	(270,401)
Loss on investment in joint venture (Note 13f)	(159,765)	-
	<u>(159,765)</u>	<u>(270,401)</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>70,445</u>	<u>(209,297)</u>
Changes in Net Assets With Donor Restrictions		
Contributions (Notes 1h and 5)	11,743,800	1,106,415
Donated interest (Notes 1j and 12)	-	211,341
Interest income	59,317	133,479
Realized loss on sale of investments	(1,250)	-
Unrealized loss on investments	(53,446)	(27,850)
Investment fees	(3,260)	-
Net assets released from restrictions	<u>(1,184,684)</u>	<u>(1,317,888)</u>
Increase in Net Assets With Donor Restrictions	<u>10,560,477</u>	<u>105,497</u>
Increase (decrease) in net assets	10,630,922	(103,800)
Distribution to Civic Builders, Inc. (non-Civic entities)	339	245
Net assets, beginning of year	<u>42,170,032</u>	<u>42,273,587</u>
Net Assets, End of Year	<u><u>\$52,801,293</u></u>	<u><u>\$42,170,032</u></u>

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021				Total Expenses	2020				Total Expenses
	Program Services	Supporting Services		Total		Program Services	Supporting Services		Total	
		Management and General	Fundraising			Management and General	Fundraising			
Salaries	\$ 2,568,394	\$ 664,448	\$ 217,367	\$ 881,815	\$ 3,450,209	\$ 2,525,625	\$ 667,773	\$ 208,068	\$ 875,841	\$ 3,401,466
Payroll taxes and benefits	461,035	119,270	39,018	158,288	619,323	413,347	109,288	34,053	143,341	556,688
Consulting services	496,807	58,285	-	58,285	555,092	1,041,625	73,556	-	73,556	1,115,181
Facilities	4,090,843	88,239	28,795	117,034	4,207,877	3,307,653	92,478	28,815	121,293	3,428,946
Grant expense	31,557	-	-	-	31,557	89,407	-	-	-	89,407
Insurance	222,085	26,158	-	26,158	248,243	160,062	21,484	-	21,484	181,546
Non recoverable pre-development	74,536	-	-	-	74,536	66,070	-	-	-	66,070
Professional fees	124,869	242,525	-	242,525	367,394	81,364	246,111	-	246,111	327,475
Marketing	17,075	-	10,295	10,295	27,370	17,139	-	7,133	7,133	24,272
Supplies and general	165,649	44,574	11,734	56,308	221,957	139,558	47,540	11,497	59,037	198,595
Travel	18,801	5,321	1,591	6,912	25,713	24,056	3,529	1,100	4,629	28,685
Interest	3,975,773	-	-	-	3,975,773	2,474,962	-	-	-	2,474,962
Letter of credit fees	57,534	-	-	-	57,534	61,277	-	-	-	61,277
Amortized interest	269,699	-	-	-	269,699	284,218	-	-	-	284,218
Depreciation and amortization	2,455,059	19,901	-	19,901	2,474,960	1,516,874	21,754	-	21,754	1,538,628
Total Expenses	\$15,029,716	\$ 1,268,721	\$ 308,800	\$1,577,521	\$16,607,237	\$12,203,237	\$ 1,283,513	\$ 290,666	\$1,574,179	\$13,777,416

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$10,630,922	\$ (103,800)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,474,960	1,538,628
Amortized interest	269,699	284,218
Net loss assumed from acquired entities	-	270,401
Loss on investment in joint venture	159,765	-
Unrealized loss on investments	73,217	11,336
Realized gain on sale of investments	(299)	(67)
Unrealized (gain) loss on interest rate swaps	603,058	(9,330)
Donated interest	168,084	(211,341)
Forgiveness of loan payable	(423,982)	-
(Increase) decrease in:		
Contributions receivable	87,664	(994,078)
Interest receivable	(193,600)	(304,235)
Accounts receivable and other assets	1,616,829	(2,292,197)
Increase (decrease) in:		
Accounts payable and other accrued expenses	320,577	127,332
Deferred revenue	(19,901)	150,155
Deferred rent payable	17,077	56,202
Tenants' security deposits and reserves	597,947	420,643
Net Cash Provided (Used) By Operating Activities	<u>16,382,017</u>	<u>(1,056,133)</u>
Cash Flows From Investing Activities		
Purchase of investments	(17,663,411)	(18,259,930)
Redemption of investments	11,956,594	21,270,443
Purchase of real estate and construction costs	(14,045,359)	(28,714,035)
Notes receivable	(18,470,200)	(3,265,500)
Collections on notes receivable	14,560,775	3,948,441
Investment from Civic Builders, Inc. (non-Civic entities)	(161,000)	(429,500)
Investment repaid to Civic Builders, Inc. (non-Civic entities)	287,300	1,500
Distribution to Civic Builders, Inc. (non-Civic entities)	339	245
Office improvements, equipment and deferred leasing costs	(27,231)	(47,347)
Construction accounts payable	(1,558,468)	(2,765,359)
Net Cash Used By Investing Activities	<u>(25,120,661)</u>	<u>(28,261,042)</u>
Cash Flows From Financing Activities		
Proceeds from loans payable	27,578,081	34,214,499
Repayments of loans payable	(6,976,801)	(1,571,109)
Deferred financing costs	(302,722)	(278,136)
Net Cash Provided By Financing Activities	<u>20,298,558</u>	<u>32,365,254</u>
Net increase in cash and restricted cash	11,559,914	3,048,079
Cash and restricted cash, beginning of year	<u>11,683,429</u>	<u>8,635,350</u>
Cash and Restricted Cash, End of Year	<u>\$23,243,343</u>	<u>\$11,683,429</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 3,727,876</u>	<u>\$ 2,670,226</u>

See notes to consolidated financial statements.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 1 - Organization and Summary of Significant Accounting Policies

a - 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 and certain other wholly owned limited liability companies and corporations that had no assets or liabilities at December 31, 2021 and 2020 and no activity during those years. All significant intercompany transactions have been eliminated in consolidation.

b - Cash and Cash Equivalents

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

c - Investments

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

Interest, dividends and gains and losses on investments are reflected in the statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 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, 2021 AND 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.

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 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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

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.

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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

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 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.

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; 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.

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

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

s - Prior Year Information

For comparability purposes, certain 2020 amounts have been reclassified, where appropriate, to conform to the consolidated financial statement presentation used in 2021.

t - Subsequent Events

Civic has evaluated subsequent events through April 27, 2022, 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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$17,455,610	\$ 4,681,821
Cash restricted by Board of Directors	2,000,000	2,000,000
Restricted cash for tenant security deposits, tenant reserve accounts and loan funding reserves	<u>3,787,733</u>	<u>5,001,608</u>
Total Cash and Restricted Cash Shown in the Statement of Cash Flows	<u>\$23,243,343</u>	<u>\$11,683,429</u>

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 BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 3 - Information Regarding Liquidity and Availability (continued)

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, 2021 and 2020 available to meet cash needs for operating and capital uses within one year are summarized as follows:

	<u>2021</u>	<u>2020</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$17,455,610	\$ 4,681,821
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	3,787,733	5,001,608
Investments	19,454,417	13,820,518
Contributions receivable	956,914	1,044,578
Other assets - accounts and interest receivables	1,883,572	1,721,202
Notes receivable	24,408,099	20,498,674
Mortgage escrow deposit	<u>500,000</u>	<u>500,000</u>
Total Financial Assets	70,446,345	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	(2,995,843)	(2,710,439)
Interest receivable due in excess of one year	(833,182)	(584,265)
Net assets with donor restrictions, subject to expenditure specific purposes or passage of time	(19,715,600)	(9,542,324)
Cash restricted by the Board of Directors	(2,000,000)	(2,000,000)
Notes receivable - non current	(19,508,099)	(8,466,024)
Mortgage escrow	<u>(500,000)</u>	<u>(500,000)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$24,893,621</u>	<u>\$25,465,349</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 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:

	<u>2021</u>	<u>2020</u>
Operating		
Subject to expenditure for specified purposes	\$19,672,153	\$ 8,923,592
Subject to passage of time	<u>1,851,700</u>	<u>2,039,784</u>
	<u>\$21,523,853</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, 2021, 97% of contributions receivable were from one donor, and at December 31, 2020, 96% of contributions receivable were from one donor.

During the year ended December 31, 2021, Civic received approximately 78% of its contributions from one donor, and during the year ended December 31, 2020, Civic received approximately 60% of its contributions from two donors.

Note 6 - Investments

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

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury notes	\$18,550,104	\$18,477,818	\$ 6,699,420	\$ 6,680,814
Certificates of deposit	<u>979,000</u>	<u>976,599</u>	<u>7,113,000</u>	<u>7,139,704</u>
Total	<u>\$19,529,104</u>	<u>\$19,454,417</u>	<u>\$13,812,420</u>	<u>\$13,820,518</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 7 - Real Estate

Real estate consists of:

	<u>2021</u>	<u>2020</u>
Land	\$10,772,654	\$ 5,893,300
Building and leasehold improvements	<u>79,710,267</u>	<u>70,544,262</u>
	90,482,921	76,437,562
Less: Accumulated depreciation and amortization	<u>(10,197,955)</u>	<u>(7,836,623)</u>
	<u>\$80,284,966</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.

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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 9 - New Markets Tax Credit Transactions (continued)

- (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, 2021, 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 and \$39,000,000 of which was sub-allocated in 2020. 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.
- (b) As a developer of charter school facilities, Civic formed QALICBs which used QLIC 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 QLICs.

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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 9 - New Markets Tax Credit Transactions (continued)

On November 23, 2020, at the end of the seven-year credit allowance period for another NTMC 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. Civic forgave \$5,427,350 of the note receivables and assumed a net loss of \$270,401 from acquiring the entities during the year ended December 31, 2020. During the year ended December 31, 2021, the balance of the notes receivable was fully repaid, as well as the notes payable between the two Civic subsidiaries. These entities have been dissolved as of December 31, 2021.

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.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 10 - Notes Receivable

Notes receivable consist of:

	<u>2021</u>	<u>2020</u>
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 the funds to make this loan from a bank (Note 12).	\$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. The principal is due at maturity. \$2,670,000 of the loan was repaid during the year ended December 31, 2021.	530,000	3,200,000
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.	<u>232,900</u>	<u>232,900</u>
Sub-total (carried forward)	<u>24,408,099</u>	<u>8,607,899</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 10 - Notes Receivable (continued)

	2021	2020
Sub-total (brought forward)	\$24,408,099	\$ 8,607,899
<p>On November 23, 2020, Civic acquired a subsidiary (Note 9) 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, and Civic recognized the uncollectible amount as part of net loss assumed from acquiring the entity in the accompanying consolidated statements of activities. The notes were fully repaid on March 5, 2021.</p>	-	6,655,505
<p>On November 23, 2020, Civic acquired a subsidiary (Note 9) 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, and Civic recognized the uncollectible amount as part of net loss assumed from acquiring the entity in the accompanying consolidated statements of activities. The notes were fully repaid on March 5, 2021.</p>	-	2,457,145
Sub-total (carried forward)	24,408,099	17,720,549

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 10 - Notes Receivable (continued)

	<u>2021</u>	<u>2020</u>
Sub-total (brought forward)	\$24,408,099	\$17,720,549
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). The loan was fully repaid on December 15, 2021.	-	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. The loan was fully repaid on July 1, 2021.	-	322,625
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. The loan was fully repaid on October 21, 2021.	<u>-</u>	<u>196,500</u>
Total Notes Receivable	24,408,099	20,498,674
Less: Current portion	<u>(4,900,000)</u>	<u>(12,032,650)</u>
Non-Current Portion	<u>\$19,508,099</u>	<u>\$ 8,466,024</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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:

<u>Year Ending December 31,</u>	
2022	\$ 10,220,000
2023	10,241,000
2024	10,161,000
2025	9,992,000
2026	10,229,000
Thereafter	270,718,000

Note 12 - Loans Payable

Loans payable consist of:

	<u>2021</u>	<u>2020</u>
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.	\$1,587,303	\$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.	<u>2,328,285</u>	<u>2,545,298</u>
Sub-total (carried forward)	<u>3,915,588</u>	<u>4,344,117</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 12 - Loans Payable (continued)

	<u>2021</u>	<u>2020</u>
Sub-total (brought forward)	\$ 3,915,588	\$ 4,344,117
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. This loan was fully repaid on March 8, 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.	8,436,549	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 requires monthly payments of \$37,804, including principal and interest at the rate of 4.22% per annum, through maturity on December 1, 2045.	<u>6,838,653</u>	<u>7,000,000</u>
Sub-total (carried forward)	<u>19,190,790</u>	<u>23,854,483</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 12 - Loans Payable (continued)

	<u>2021</u>	<u>2020</u>
Sub-total (brought forward)	\$19,190,790	\$23,854,483
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 a contribution 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 years ended December 31, 2021 and 2020 was \$168,084 and \$159,395, respectively.	5,178,300	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.	3,583,064	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.	<u>23,475,000</u>	<u>23,475,000</u>
Sub-total (carried forward)	<u>51,427,154</u>	<u>55,982,585</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
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DECEMBER 31, 2021 AND 2020

Note 12 - Loans Payable (continued)

	2021	2020
Sub-total (brought forward)	\$51,427,154	\$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, 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.</p>	17,574,782	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 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.</p>	5,089,022	5,952,940
<p>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 fixed rate of 4.50%, and requires payments of interest only through April 30, 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.</p>	<u>13,697,477</u>	<u>-</u>
Sub-total (carried forward)	<u>87,788,435</u>	<u>76,504,921</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 12 - Loans Payable (continued)

	2021	2020
Sub-total (brought forward)	\$87,788,435	\$76,504,921
<p>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.</p>	9,485,850	-
<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. In November 2021, Civic received forgiveness of the full loan amount, and accordingly recognized loan forgiveness revenue.</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, 2021.</p>	-	-
Total Loans Payable	97,274,285	76,928,903
Less: Unamortized deferred financing costs	(1,804,256)	(1,771,233)
Mortgages payable, less unamortized deferred financing costs	95,470,029	75,157,670
Less: Current portion	(1,634,966)	(5,937,655)
Non-Current Portion	<u>\$93,835,063</u>	<u>\$69,220,015</u>

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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>	
2022	\$ 1,635,000
2023	1,875,000
2024	23,203,000
2025	16,757,000
2026	1,640,000

Interest incurred on these loans was \$3,975,771 and \$2,934,852 during 2021 and 2020, respectively, of which \$459,890 was capitalized during the year ended December 31, 2020. No interest was capitalized during the year ended December 31, 2021. Interest incurred during the years ended December 31, 2021 and 2020 includes \$168,084 and \$159,395, respectively, of imputed interest that is recognized as interest expense.

As described in Note 17, \$4,641,000 of the U.S. Department of Education grant has been used as credit enhancement for eight 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>	
2022	\$ 341,000
2023	384,000
2024	408,000
2025	419,000
2026	429,000
Thereafter, through March 31, 2029	1,006,000

Office rent expense was \$380,852 for the years ended December 31, 2021 and 2020, respectively.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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>	
2022	\$ 3,585,000
2023	3,704,000
2024	3,855,000
2025	3,962,000
2026	4,059,000
Thereafter	109,192,000

- 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 years ended December 31, 2021 and 2020 were \$118,346 and \$122,888, respectively.
- d - In connection with one of Civic subsidiaries' projects, there remained approximately \$650,000 of construction contract commitments.
- e - Civic has entered into loan guaranty agreements (the "Guaranties"), totaling \$11,463,513, 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 commenced on September 2, 2020 and is expected to be completed by June 2023. As of December 31, 2021, Civic has made capital contributions of \$300,000 to the joint venture development. During the year ended December 31, 2021, a loss of \$159,765 was recorded on the joint venture.

CIVIC BUILDERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 14 - Interest Rate Swaps

At December 31, 2021, two Civic subsidiaries had outstanding two 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

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, 2021 and 2020, the changes in assets and liabilities measured using unobservable inputs were as follows:

	<u>2021</u>	<u>2020</u>
Interest rate swaps, beginning of year	\$ (36,723)	\$(46,053)
Change in fair value of interest rate swap	<u>(603,058)</u>	<u>9,330</u>
Interest Rate Swaps, End of Year	<u><u>\$(639,781)</u></u>	<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, 2021, \$12,110,396 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.

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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 ending 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 - Risk and Uncertainties

In March 2020, the United States of America declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. Management does not expect any significant impact resulting from economic uncertainties caused by the pandemic. Management believes that its current financial assets are sufficient to support Civic's operations on an ongoing basis.

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Note 19 - Subsequent Events

Subsequent to the year ended December 31, 2021, a Civic subsidiary entered into an agreement for the construction of a charter school approximating \$22,500,000 and entered into loan agreements with four lenders totaling \$37,360,000 at interest rates ranging from 2.25% to 4.50% per annum with maturities ranging from 2029 to 2057. In connection with this project, Civic issued a loan to an unrelated corporation for \$5,079,500 which bears interest at 0.50% per annum and matures in 2057. Civic has entered into guaranty agreements for an additional \$15,200,000 in connection to this project.

Subsequent to the year ended December 31, 2021, a Civic subsidiary purchased land for \$5,300,000 and entered into a lease with a charter school for a charter school facility expected to be constructed on the land by 2024.