

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**

**Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022  
With Independent Auditor's Report**



**MITCHELL TITUS**  
ACHIEVING EXCELLENCE TOGETHER

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**TABLE OF CONTENTS**

	<b><u>Page(s)</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1–3
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position	4–5
Consolidated Statements of Activities	6–7
Consolidated Statement of Functional Expenses	8–9
Consolidated Statements of Cash Flows	10–11
Notes to Consolidated Financial Statements	12–34



## INDEPENDENT AUDITOR'S REPORT

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

### ***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, 2023 and 2022, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the 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, 2023 and 2022, and the consolidated 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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.

### ***Responsibilities of Management for the Consolidated 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.

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### ***Auditor's Responsibilities for the Audit of the Consolidated 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 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 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 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2024 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.

*Mitchell Titus, LLP*

April 29, 2024

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Statements of Financial Position  
As of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents (Notes 2 and 16)	\$ 7,708,988	\$ 9,470,713
Cash restricted by the Board of Directors (Notes 2 and 16)	2,000,000	2,000,000
Restricted cash (Notes 2, 12 and 16)	28,332,698	14,407,663
Unrestricted investments (Notes 6 and 16)	9,901,720	7,937,040
<i>Contributions receivable</i> (Note 5)		
Without donor restrictions	58,209	361,169
With donor restrictions	581,818	961,111
Accounts receivable and other assets	1,003,958	1,317,187
Notes receivable (Note 10)	-	5,271,843
	<u>49,587,391</u>	<u>41,726,726</u>
<i>Non-current assets</i>		
Restricted cash (Notes 2, 12 and 16)	8,372,189	5,650,759
Restricted investments (Notes 6, 16 and 17)	16,325,623	17,210,816
Other assets	2,263,119	2,331,518
Investment in joint venture (Note 13)	46,554	12,286
Investments in New Markets Tax Credit entities (Note 9)	16,800	13,500
Real estate, at cost, net of accumulated amortization and depreciation (Notes 7 and 8)	97,188,354	94,896,191
Interest receivable	1,331,017	1,082,099
Notes receivable (Note 10)	29,924,699	23,824,699
Mortgage escrow deposit (Note 12)	500,000	500,000
Interest rate swap (Notes 14 and 15)	1,186,923	2,019,233
Deferred leasing costs, net of accumulated amortization of \$787,760 at 2023 and \$699,183 at 2022, respectively	1,007,880	1,159,963
Accrued rent receivable	4,568,224	3,676,554
Right of use asset (Note 13)	45,204,864	58,047,616
Office improvements and equipment, at cost, net of accumulated depreciation	60,557	58,079
	<u>207,996,803</u>	<u>210,483,313</u>
Total non-current assets		
	<u>\$ 257,584,194</u>	<u>\$ 252,210,039</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Statements of Financial Position (*continued*)  
As of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Accounts payable and other accrued expenses	\$ 1,644,808	\$ 651,362
Construction accounts payable	3,811,278	3,015,069
Deferred revenue	434,746	180,945
Loans payable (Note 12)	<u>2,564,558</u>	<u>6,928,057</u>
Total current liabilities	<u>8,455,390</u>	<u>10,775,433</u>
<i>Non-current liabilities</i>		
Loans payable (Note 12)	138,887,529	119,648,019
Lease liability (Note 13)	47,553,957	59,871,771
Deferred rental income liability	60,426	23,397
Tenants' security deposits and reserves	<u>4,008,448</u>	<u>4,839,957</u>
Total non-current liabilities	<u>190,510,360</u>	<u>184,383,144</u>
Total liabilities	<u>198,965,750</u>	<u>195,158,577</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
(Notes 9, 12, 13, 14 and 15)		
<b>NET ASSETS</b>		
<i>Without donor restrictions</i>		
Operating	35,573,283	34,266,556
Board-designated cash reserve (Note 4)	<u>2,000,000</u>	<u>2,000,000</u>
Total without donor restrictions	37,573,283	36,266,556
With donor restrictions (Note 4)	<u>21,045,161</u>	<u>20,784,906</u>
Total net assets	<u>58,618,444</u>	<u>57,051,462</u>
<b>Total liabilities and net assets</b>	<u>\$ 257,584,194</u>	<u>\$ 252,210,039</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Statements of Activities  
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<i>Revenue, gains and other support (excluding public support)</i>		
Rental income (Note 11)	\$ 8,838,538	\$ 10,227,245
Rental income - noncash (Note 11)	2,419,989	3,653,157
Interest income	1,995,549	1,429,853
Development fees	90,000	365,000
Sponsor fees (Note 9)	1,325,000	-
Unrealized gain (loss) on investment	159,596	(5,968)
Realized gain on sale of investments	56,898	(184)
Unrealized gain (loss) on interest rate swaps (Notes 14 and 15)	(832,310)	2,659,014
Realized gain on termination of interest rate swap (Notes 14 and 15)	465,000	-
Gain on assignment of leasehold (Note 8)	608,319	-
Management fees (Note 9)	2,920,232	3,105,401
	<u>18,046,811</u>	<u>21,433,518</u>
<b>EXPENSES</b>		
<i>Program services</i>		
Rental and project development	16,869,026	17,154,392
<i>Supporting services</i>		
Management and general	2,121,767	1,678,988
Fundraising	631,828	356,342
	<u>2,753,595</u>	<u>2,035,330</u>
Total supporting services	<u>2,753,595</u>	<u>2,035,330</u>
Total expenses	<u>19,622,621</u>	<u>19,189,722</u>
(Decrease) increase in net assets without donor restrictions (excluding public support)	<u>(1,575,810)</u>	<u>2,243,796</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Statements of Activities *(continued)*  
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>EXPENSES</b> <i>(continued)</i>		
<i>Public support</i>		
Contributions (Note 5)	\$ 1,569,764	\$ 1,098,522
Net assets released from restrictions	<u>1,278,192</u>	<u>1,774,453</u>
Total public support	<u>2,847,956</u>	<u>2,872,975</u>
Increase in net assets without donor restrictions (including public support)	<u>1,272,146</u>	<u>5,116,771</u>
<i>Other gains (losses)</i>		
Gain (loss) on investment in joint venture (Note 13)	<u>34,268</u>	<u>(127,949)</u>
Increase in net assets without donor restrictions	<u>1,306,414</u>	<u>4,988,822</u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions (Note 5)	626,818	1,090,011
Donated interest	91,047	-
Interest income	557,942	19,453
Realized gain (loss) on sale of investments	-	(11,174)
Unrealized gain (loss) on investments	274,047	(43,467)
Investment fees	(11,407)	(19,317)
Net assets released from restrictions	<u>(1,278,192)</u>	<u>(1,774,453)</u>
Increase (decrease) in net assets without donor restrictions	<u>260,255</u>	<u>(738,947)</u>
Increase in net assets	1,566,669	4,249,875
Distribution to Civic Builders, Inc. (non-Civic entities)	313	294
Net assets, beginning of year	<u>57,051,462</u>	<u>52,801,293</u>
<b>Net assets, end of year</b>	<u>\$ 58,618,444</u>	<u>\$ 57,051,462</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Statement of Functional Expenses  
For the Year Ended December 31, 2023

	<b>Program Services</b>	<b>Supporting Services</b>			<b>Total Expenses</b>
		<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>	
Salaries	\$ 2,400,828	\$ 952,541	\$ 357,423	\$ 1,309,964	\$ 3,710,792
Payroll taxes and benefits	396,316	157,240	59,002	216,242	612,558
Consulting services	756,089	152,426	29,968	182,394	938,483
Facilities	5,005,497	124,714	46,797	171,511	5,177,008
Grant expense	908,932	-	-	-	908,932
Insurance	297,980	32,666	-	32,666	330,646
Non recoverable pre-development	279,777	-	-	-	279,777
Professional fees	129,881	458,538	-	458,538	588,419
Marketing	15,108	-	90,852	90,852	105,960
Supplies and general	233,242	104,694	34,679	139,373	372,615
Travel	88,042	111,415	13,107	124,522	212,564
Loan loss provision	-	-	-	-	-
Interest	3,885,641	-	-	-	3,885,641
Letter of credit fees	23,572	-	-	-	23,572
Amortized interest	293,805	-	-	-	293,805
Depreciation and amortization	2,154,316	27,533	-	27,533	2,181,849
<b>Total expenses</b>	<b>\$ 16,869,026</b>	<b>\$ 2,121,767</b>	<b>\$ 631,828</b>	<b>\$ 2,753,595</b>	<b>\$ 19,622,621</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Statement of Functional Expenses  
For the Year Ended December 31, 2022

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

The accompanying notes are an integral part of these consolidated financial statements.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 1,566,669	\$ 4,249,875
<i>Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities</i>		
Depreciation and amortization	2,181,849	2,495,342
Amortized interest	293,805	342,355
(Gain) loss on investment in joint venture	(34,268)	127,949
Provision for uncollectible notes receivable	-	14,632
Unrealized (gain) loss on investments	(433,643)	49,435
Realized (gain) loss on sale of investments	(56,898)	11,358
Unrealized (gain) loss on interest rate swaps	832,310	(2,659,014)
Realized gain on termination of interest rate swap	(465,000)	-
Donated interest	86,034	172,524
Gain on assignment of leasehold	(608,319)	-
<i>(Increase) decrease in</i>		
Contributions receivable	682,253	(365,366)
Interest receivable	(248,918)	(248,917)
Accounts receivable and other assets	262,877	161,229
Accrued rent receivable	(2,457,018)	(3,676,554)
Right of use asset	1,849,224	(58,047,616)
<i>Increase (decrease) in</i>		
Accounts payable and other accrued expenses	993,446	(91,100)
Deferred revenue	253,801	(140,580)
Deferred rental income liability	37,029	23,397
Deferred rent payable	-	(226,004)
Tenants' security deposits and reserves	(831,509)	381,392
Lease liability	(709,877)	59,871,771
Net cash provided by operating activities	<u>3,193,847</u>	<u>2,446,108</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows *(continued)*  
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	\$ (33,787,693)	\$ (25,285,862)
Redemption of investments	33,198,753	19,531,630
Purchase of real estate and construction costs	(29,040,101)	(16,992,027)
Notes receivable	(6,100,000)	(5,079,500)
Collections on notes receivable	5,271,843	5,430,000
Proceeds from assignment of leasehold	26,623,828	-
Investment from Civic Builders, Inc. (non-Civic entities)	(3,300)	-
Distribution to Civic Builders, Inc. (non-Civic entities)	313	294
Office improvements, equipment and deferred leasing costs	(30,011)	(78,444)
Construction accounts payable	<u>796,209</u>	<u>2,776,000</u>
Net cash used in investing activities	<u>(3,070,159)</u>	<u>(19,697,909)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans payable	44,300,000	28,460,000
Repayments of loans payable	(28,588,440)	(1,640,868)
Cash received upon termination of interest rate swap	465,000	-
Deferred financing costs	<u>(1,415,508)</u>	<u>(1,281,539)</u>
Net cash provided by financing activities	<u>14,761,052</u>	<u>25,537,593</u>
Net increase in cash and restricted cash	14,884,740	8,285,792
Cash and restricted cash, beginning of year	<u>31,529,135</u>	<u>23,243,343</u>
<b>Cash and restricted cash, end of year</b>	<u>\$ 46,413,875</u>	<u>\$ 31,529,135</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
<b>Interest paid</b>	<u>\$ 5,212,476</u>	<u>\$ 4,868,105</u>
Project costs incurred through construction accounts payable	<u>\$ 3,811,278</u>	<u>\$ 3,015,069</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**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 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; 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, 2023 and 2022 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.

**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:

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.

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.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**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.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**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 an offset to right to use assets as described in Note 13 and rent expense in the accompanying consolidated financial statements.

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.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**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 and Civic SB LLC are limited liability companies wholly owned by NYC Fund, and their income and expenses are combined with those of NYC Fund for income tax purposes.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**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 Fund Manager LLC; Civic Fund Manager II LLC; Civic Fund Manager 3 LLC; Civic QB LLC; Civic Saratoga LLC; SV-B Civic Lender LLC and Civic GO Investment Fund, 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 Standard

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including notes receivable, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the consolidated statement of activities as the amounts expected to be collected change. Civic adopted this ASU effective January 1, 2023 and it did not have a significant impact on the consolidated financial statements.

Subsequent Events

Civic has evaluated subsequent events through April 29, 2024, the date that the financial statements are considered available to be issued.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 7,708,988	\$ 9,470,713
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>36,704,887</u>	<u>20,058,422</u>
<b>Total cash and restricted cash shown in the statement of cash flows</b>	<u>\$ 46,413,875</u>	<u>\$ 31,529,135</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 regularly monitors liquidity to meet its operating and capital needs and other commitments and obligations, while seeking to preserve the principal of its available funds. Management prepares regular cash flow projections to determine liquidity need, and has a policy to maintain liquid financial assets on an ongoing basis sufficient to cover 180 days of operating expenditures and anticipated investments into new development projects. Financial assets in excess of daily cash requirements are invested in short term certificates of deposits, U.S. treasury bills and notes, and money market mutual funds that invests solely in U.S. Government securities.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 3 INFORMATION REGARDING LIQUIDITY AND AVAILABILITY** *(continued)*

Civic's consolidated financial assets as of December 31, 2023 and 2022 available to meet cash needs for operating and capital uses within one year are summarized as follows:

	<u>2023</u>	<u>2022</u>
<i>Financial assets at year end</i>		
Cash and cash equivalents	\$ 7,708,988	\$ 9,470,713
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	36,704,887	20,058,422
Investments	26,227,343	25,147,856
Contributions receivable	640,027	1,322,280
Other assets - accounts and interest receivables	1,867,512	2,034,251
Notes receivable	29,924,699	29,096,542
Mortgage escrow deposit	500,000	500,000
	<hr/>	<hr/>
Total financial assets	105,573,456	89,630,064
<i>Less: Amounts not available to be used within one year</i>		
Restricted cash and investments held as tenants' security deposits and loan funding reserves	(5,198,283)	(5,574,080)
Interest receivable due in excess of one year	(1,331,017)	(1,082,099)
Net assets with donor restrictions, subject to expenditure specific purposes or passage of time	(20,213,885)	(19,484,014)
Cash restricted by the Board of Directors	(2,000,000)	(2,000,000)
Notes receivable - non-current	(29,924,699)	(29,096,542)
Mortgage escrow	(500,000)	(500,000)
	<hr/>	<hr/>
<b>Financial assets available to meet general expenditures within one year</b>	<b>\$ 46,405,572</b>	<b>\$ 31,893,329</b>

**NOTE 4 NET ASSETS**

Net Assets Without Donor Restrictions

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

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 4**      **NET ASSETS** *(continued)*

Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
<i>Operating</i>		
Subject to expenditure for specified purposes	\$ 19,900,201	\$ 19,074,619
Subject to passage of time	<u>1,144,960</u>	<u>1,710,287</u>
<b>Total net assets with donor restrictions</b>	<b><u>\$ 21,045,161</u></b>	<b><u>\$ 20,784,906</u></b>

**NOTE 5**      **CONTRIBUTIONS RECEIVABLE**

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

At December 31, 2023, 91% of contributions receivable were from one donor, and at December 31, 2022, 92% of contributions receivable were from two donors.

During the year ended December 31, 2023, Civic received approximately 57% of its contributions from three donors, and during the year ended December 31, 2022, Civic received approximately 70% of its contributions from three donors.

**NOTE 6**      **INVESTMENTS**

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

	<u>2023</u>		<u>2022</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury bills and notes	\$ 25,920,747	\$ 26,227,343	\$ 24,800,620	\$ 24,673,573
Certificates of deposit	-	-	490,000	474,283
<b>Total</b>	<b><u>\$ 25,920,747</u></b>	<b><u>\$ 26,227,343</u></b>	<b><u>\$ 25,290,620</u></b>	<b><u>\$ 25,147,856</u></b>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 7 REAL ESTATE**

Real estate consists of:

	<u>2023</u>	<u>2022</u>
Land	\$ 15,567,648	\$ 16,363,937
Building and leasehold improvements	<u>94,528,661</u>	<u>91,111,011</u>
<b>Total land, building and leasehold improvements</b>	110,096,309	107,474,948
<i>Less: Accumulated depreciation and amortization</i>	<u>(12,907,955)</u>	<u>(12,578,757)</u>
<b>Real estate, at cost, net of accumulated depreciation and amortization</b>	<u>\$ 97,188,354</u>	<u>\$ 94,896,191</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.

In April 2023, a subsidiary sold its leasehold interest to an affiliate of the charter school occupant for a formulaic purchase price amounting to \$26,623,828. Concurrent to the leasehold sale, loans payable were repaid in full for \$22,027,272, an interest-rate swap agreement was terminated, the project lease was assigned to an affiliate of the charter school occupant, the sublease was terminated, and obligations of the subsidiary under those agreements concluded. Civic recorded a gain on the assignment of the leasehold of \$608,319, reflecting the difference between the proceeds from the purchase price and the remaining unamortized leasehold improvements and other assets and liabilities directly related to the leasehold.

**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  
For the Years Ended December 31, 2023 and 2022

**NOTE 9**      **NEW MARKETS TAX CREDIT TRANSACTIONS** *(continued)*

As a CDE, Civic has been awarded \$288,000,000 of NMTC allocation authority by the Community Development Financial Institutions Fund, including \$60,000,000 in 2023. As of December 31, 2023, Civic has sub-allocated \$206,000,000 of NMTC allocation to nineteen limited liability companies certified as subsidiary CDEs (“Sub-CDE”), \$33,000,000 of which was sub-allocated in 2023. 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.

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 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.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 10 NOTES RECEIVABLE**

Notes receivable consist of:

	<u>2023</u>	<u>2022</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 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 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	5,079,500
A loan bearing interest at 0.50% per annum. Commencing July 1, 2023, quarterly payments of interest are due through December 31, 2030. Commencing April 1, 2031, quarterly payments of principal and interest will be due through maturity on December 31, 2053. This loan was made in connection with the financing of a charter school built by a subsidiary of Civic.	6,100,000	-
Sub-total (carried forward)	<u>29,924,699</u>	<u>23,824,699</u>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 10**      **NOTES RECEIVABLE** *(continued)*

	<u>2023</u>	<u>2022</u>
Sub-total (brought forward)	\$ 29,924,699	\$ 23,824,699
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. In March 2023, the notes were repaid and forgiven consistent with the uncollectible reserve established in 2022.	-	5,271,843
Total notes receivable	29,924,699	29,096,542
Less: Current portion	-	(5,271,843)
<b>Non-current portion</b>	<u>\$ 29,924,699</u>	<u>\$ 23,824,699</u>

**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>	<u>Amounts</u>
2024	\$ 10,873,000
2025	12,016,000
2026	12,295,000
2027	12,576,000
2028	12,579,000
Thereafter	316,248,000

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 12 LOANS PAYABLE**

Loans payable consist of:

	<u>2023</u>	<u>2022</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.	\$ 1,125,723	\$ 1,363,188
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.	1,858,619	2,099,601
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.	7,996,199	8,221,756
Sub-total (carried forward)	<u>10,980,541</u>	<u>11,684,545</u>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 12 LOANS PAYABLE** *(continued)*

	<u>2023</u>	<u>2022</u>
Sub-total (brought forward)	\$ 10,980,541	\$ 11,684,545
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.	6,494,834	6,670,364
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, 2023 and 2022 was \$177,081 and \$172,524, respectively.	5,436,858	5,350,824
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.	3,444,977	3,515,018
Sub-total (carried forward)	<u>26,357,210</u>	<u>27,220,751</u>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 12      LOANS PAYABLE** *(continued)*

	<u>2023</u>	<u>2022</u>
Sub-total (brought forward)	\$ 26,357,210	\$ 27,220,751
<p>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.</p>		
	23,475,000	23,475,000
<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. The remaining outstanding loan payable was fully repaid concurrent with the sale of the project leasehold as described in Note 8.</p>		
	-	17,175,649
<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 remaining outstanding loan payable was fully repaid concurrent with the sale of the project leasehold as described in Note 8.</p>		
	-	4,989,509
Sub-total (carried forward)	<u>49,832,210</u>	<u>72,860,909</u>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 12 LOANS PAYABLE** *(continued)*

	<u>2023</u>	<u>2022</u>
Sub-total (brought forward)	\$ 49,832,210	\$ 72,860,909
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.	13,520,386	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.	9,004,518	9,249,457
A Civic subsidiary entered into QLICI loans 1, 2 and 3, consisting 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.	<u>28,460,000</u>	<u>28,460,000</u>
Sub-total (carried forward)	<u>100,817,114</u>	<u>124,267,843</u>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 12      LOANS PAYABLE** *(continued)*

	<u>2023</u>	<u>2022</u>
Sub-total (brought forward)	\$ 100,817,114	\$ 124,267,843
A Civic subsidiary acquired a loan on December 23, 2022 in the amount of \$5,053,575. The loan was fully repaid during the year ended December 31, 2023.	-	5,051,672
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.	1,000,000	-
A Civic subsidiary entered into QLICI loans consisting of 13 building, project and acquisition notes in the amounts of \$31,344,500 (eight "Notes A") and \$11,955,500 (five "Notes B") for a total of \$43,300,000. All notes bear interest at a rate of 3.00% per year and require payments of interest only commencing on June 5, 2023 through December 31, 2030. Thereafter, quarterly payments of principal and interest will be required through December 31, 2058, the maturity date.	43,300,000	-
Total loans payable	145,117,114	129,319,515
Less: Unamortized deferred financing costs	<u>(3,665,027)</u>	<u>(2,743,439)</u>
Mortgages payable, less unamortized deferred financing costs	141,452,087	126,576,076
Less: Current portion	<u>(2,564,558)</u>	<u>(6,928,057)</u>
<b>Non-current portion</b>	<u>\$ 138,887,529</u>	<u>\$ 119,648,019</u>

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 12      LOANS PAYABLE (continued)**

A Civic subsidiary has also entered into two direct loan agreements to finance costs of its project. Direct loans 1 and 2 consist of one building note in the amount of \$7,118,469 and one project note in the amount of \$1,781,531, for a total of \$8,900,000. The building and project notes required monthly payments of interest only at the Adjusted Secured Overnight Financing Rate (SOFR) plus an applicable margin as defined in the loan agreements during the project construction period. Upon completion of construction, the loans will convert to permanent loans subject to a fixed interest rate of 4.5%. Commencing February 25, 2024, the loans require monthly payments of principal and interest through the maturity date, which will be either March 16, 2024, the construction term maturity date or, if the loans convert to permanent loans, June 16, 2029, the permanent term maturity date. After the loans convert to permanent loans, the subsidiary has the right to prepay the loans, subject to a potential prepayment penalty. As of December 31, 2023, the subsidiary has not yet borrowed any funds under direct loans 1 and 2. The funds were fully drawn and converted in February 2024.

Another Civic subsidiary also entered into direct loan agreements to finance its project. This subsidiary's direct loans consist of three building notes amounting to \$438,096 and three project notes amounting to \$2,261,904, for a total of \$2,700,000. The building and project notes required quarterly payments of interest only at a rate of 6.00%. Commencing April 1, 2025, the loans require quarterly payments of principal and interest through the maturity date, September 30, 2030. As of December 31, 2023, the subsidiary has not yet borrowed any funds under the direct loans.

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

<u>Year Ending December 31,</u>	<u>Amounts</u>
2024	\$ 2,565,000
2025	16,750,000
2026	1,641,000
2027	7,157,000
2028	13,325,000
Thereafter	103,679,000

Interest incurred on these loans was \$5,347,355 and \$5,079,480 during 2023 and 2022, respectively, of which \$1,461,729 and \$506,944 was capitalized in the years ended December 31, 2023 and 2022, respectively. Interest incurred during the years ended December 31, 2023 and 2022 includes \$177,081 and \$172,524, respectively, of imputed interest that is recognized as interest expense.

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.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**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:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2024	\$ 408,000
2025	419,000
2026	429,000
2027	440,000
2028	451,000
Thereafter, through March 31, 2029	115,000

Office rent expense was \$380,852 for each of the years ended December 31, 2023 and 2022.

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>	<u>Amounts</u>
2024	\$ 3,321,000
2025	3,416,000
2026	3,513,000
2027	3,613,000
2028	3,734,000
Thereafter	73,466,000

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.

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.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 13**      **COMMITMENTS AND CONTINGENCIES** *(continued)*

For the years ended December 31, 2023 and 2022, total operating lease costs were \$4,957,001 and \$5,197,484, respectively. Operating cash flows from operating leases amounted to \$3,817,654 and \$3,980,184 for the years ended December 31, 2023 and 2022, respectively. The weighted average remaining lease term for all operating leases is approximately 23.20 years and the weighted average discount rate is 6.0%. At December 31, 2023, the undiscounted future cash flows of \$93,429,615 are discounted by a present value adjustment of \$45,875,658, resulting in an operating lease liability of \$47,553,957 reported in the accompanying balance sheet as of December 31, 2023.

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, 2023 and 2022 were \$125,238 and \$108,262, respectively.

In connection with Civic subsidiaries' projects, there remained approximately \$20,247,800 of construction contract commitments as of December 31, 2023.

Civic has entered into loan guaranty agreements (the "Guaranties"), totaling \$53,880,719, 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, 2023 and 2022, Civic's capital contribution balance in the joint venture development was \$300,000 each year.

**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 interest-rate swap agreement for one subsidiary was terminated during the year ended December 31, 2023. Previously recognized unrealized gains of \$634,149 were derecognized and a realized gain of \$465,000 upon termination of the interest-rate swap agreement was recognized.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 14 INTEREST RATE SWAPS** *(continued)*

The remaining outstanding agreement has a total notional principal amount equivalent to the subsidiary’s outstanding long-term loans. The agreement effectively changes the subsidiary’s interest rate exposure on the equivalent amounts of its floating rate note to a fixed rate of 3.69%. The interest rate swap agreement matures October 5, 2031.

**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, 2023 and 2022, the changes in assets and liabilities measured using unobservable inputs were as follows:

	<u>2023</u>	<u>2022</u>
Interest rate swaps, beginning of year	\$ 2,019,233	\$ (639,781)
Change in fair value of interest rate swap	<u>(832,310)</u>	<u>2,659,014</u>
<b>Interest rate swaps, end of year</b>	<u>\$ 1,186,923</u>	<u>\$ 2,019,233</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 bills and certificates of deposits. At December 31, 2023, \$9,522,557 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 bills and certificates of deposits.

**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.

**CIVIC BUILDERS, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
For the Years Ended December 31, 2023 and 2022

**NOTE 17**      **U.S. DEPARTMENT OF EDUCATION GRANT** *(continued)*

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).

Across both grants at December 31, 2023 Civic had \$8,988,412 in pledged grant funds to lenders and landlords in 18 projects, excluding recycled grant funds previously deployed and released.

