COMMUNITY EDUCATION BUILDING CORP.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS, INDEPENDENT AUDITORS' REPORTS, AND SINGLE AUDIT

JUNE 30, 2019 AND 2018

COMMUNITY EDUCATION BUILDING CORP.
AND SUBSIDIARIES
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Independent Auditors' Report

To the Board of Directors
Community Education Building Corp.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Education Building Corp. (a nonprofit organization) and subsidiaries which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal

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To the Board of Directors
Community Education Building Corp.

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Education Building Corp. and subsidiaries as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Community Education Building Corp. and subsidiaries as of June 30, 2018, were audited by other auditors whose report dated November 19, 2018, expressed an unmodified opinion of those statements.

Other Matters

Supplementary Information - Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

To the Board of Directors
Community Education Building Corp.

Supplementary Information - Management's Discussion and Analysis

Community Education Building Corp. has presented the management's discussion and analysis on pages 5 and 6 to supplement the basic consolidated financial statements. Such information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements, however, the Organization considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019 on our consideration of Community Education Building Corp.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Community Education Building Corp.'s 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 Community Education Building Corp.'s internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

October 4, 2019
Wilmington, Delaware

MANAGEMENT’S DISCUSSION AND ANALYSIS

COMMUNITY EDUCATION BUILDING CORP.
AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

As management of the Community Education Building Corp. (hereinafter "CEB"), we offer readers of CEB's financial statements this narrative overview and analysis of the financial activities of CEB for the fiscal year ended June 30, 2019. Please read it in conjunction with CEB's audited financial statements, which begin on page 8.

The mission of the CEB is to transform urban K-12 public education through collaborative partnerships with its tenant schools and others, including funders like the Longwood Foundation (hereinafter "Longwood"). The CEB's innovative model seeks to use all of its resources to bring educational opportunity and equity to all children by: 1) providing schools with a safe and inviting place to learn and work; 2) offering co-location and shared services that save valuable financial and human capital resources; 3) integrating student and family supports to help students come to school ready to learn; 4) serving as a catalyst for collaboration and innovation for educational excellence among our partners; and 5) advocating for our schools, students, and families to promote equitable educational opportunity.

In November 2018, the CEB entered into a Continuing Support Agreement (hereinafter "CSA") with the Longwood Foundation[1]. The CSA addressed CEB's debt obligations resulting from a debt refinancing of start-up and infrastructure improvement expenses incurred by CEB in transforming a commercial office building into an educational space for up to 1800 students[2], all as more thoroughly described in Notes 1, 5, 6, 8 & 9 of the Financial Statements. The CSA commits Longwood to (1) making annual grants to CEB in amounts equal to the debt service of the refinanced debt ($31,860,000) until such debt is fully satisfied and; (2) standing behind all obligations resulting from fluctuations in the swap agreements used as a hedge against interest rate changes on the bond. Under the terms of the CSA, the CEB agreed to use those grants solely to satisfy the refinanced start-up and infrastructure improvement debt service obligations. The CSA prohibits the CEB from disposing of the building or assuming additional debt obligations without the approval of both Longwood and Capital One, whose approval may not be unreasonably withheld. The CSA imposes no additional operating or financial covenants on the CEB beyond standard reporting requirements.

[1] The Longwood Foundation is a private, non-operating foundation formed in Delaware which is exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code.

[2] In February 2012, Bank of America donated this center city Wilmington office building to the CEB. The donated office building was repurposed and renovated into a facility offering turn-key, Class A space for several charter schools with capacity to serve 1,800 students. The renovations and anticipated operating revenue shortfall were financed with funds borrowed by CEB and guaranteed by Longwood.

As a result of the CSA, CEB's net assets increased by $31,400,449 during the year ended June 30, 2019 compared to an increase in net assets of $1,697,445 during the year ended June 30, 2018. Included in the increase in net assets for the year ended June 30, 2019 was revenue from Longwood in the amount of $31,860,000 from the initial recognition of the CSA. Additional increases in revenue from the CSA during the year ended June 30, 2019 also resulted from recognizing Longwood's commitment for present value adjustments (interest component of the debt guaranty) and changes in the value of the interest rate swap contract. The transactions related to this one CSA transaction account for the vast bulk of the change in net assets in the previous fiscal year. There will be a residual impact on the financial statements in the next fiscal year, beyond that, however, the impact will net out. The organization will continue to recognize future revenue from the CSA over the life of the agreement.

The CSA represents a unique collaborative initiative between Longwood and CEB. Through the CSA, Longwood continues its historical commitment of supporting organizations focused on improving public education and reaffirmed its support of, and long-term commitment to, CEB. The CSA functions to relieve CEB of its start-up and infrastructure improvement debt obligations. With no mortgage lien on its capital assets as a result of the refinancing and Longwood's guarantee of the refinanced obligations, CEB will utilize all future revenue and philanthropic contributions from other sources exclusively for operations, programming initiatives and capital investments aimed at bringing enhanced educational opportunity and equity to underserved children in the City of Wilmington. Management believes that by relieving CEB of its debt obligations, the CSA has placed CEB in a significantly enhanced position to serve CEB's schools, students, and families and ensured CEB's long-term financial sustainability.

CEB is privileged to have Longwood's long-term commitment and its encouragement to use CEB's enhanced financial capacity to expand its base of philanthropic partners and to judiciously leverage additional borrowings in pursuit of its mission.

This financial report is designed to provide a general overview of CEB's finances to the users of such data. Requests for additional copies of this report, questions concerning any of the information in this report, and requests for additional financial information should be addressed to the VP of Finance and Operations, Community Education Building, 1200 North French Street, Wilmington, DE 19801.

CONSOLIDATED FINANCIAL STATEMENTS

COMMUNITY EDUCATION BUILDING CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 698,049	$ 1,003,339
Cash - Restricted For Debt Service	1,493,257	-
Accounts Receivable	471,901	22,242
Contribution Receivable - Debt Service	472,271	-
Contribution Receivable - Other	66,666	-
Deposits and Prepaid Expenses	26,996	40,030
TOTAL CURRENT ASSETS	3,229,140	1,065,611
OTHER ASSETS		
Cash - Tenant Deposits	6,418	30,818
Cash - Restricted for Investment in Capital	403,102	1,002,249
Contribution Receivable - Debt Service (Net of Current Portion)	32,104,803	-
Contribution Receivable - Other (Net of Current Portion)	66,667	-
Property and Equipment (Net)	34,207,868	34,036,174
Derivative Contract - Interest Rate Swap	-	161,793
TOTAL OTHER ASSETS	66,788,858	35,231,034
TOTAL ASSETS	$ 70,017,998	$ 36,296,645
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 321,745	$ 171,305
Current Maturities of Long-term Debt	972,986	6,318,515
TOTAL CURRENT LIABILITIES	1,294,731	6,489,820
OTHER LIABILITIES		
Deposits Payable	6,418	30,818
Long-term Debt (Net of Current Maturities)	30,214,805	25,310,135
Derivative Contract - Interest Rate Swap	2,635,723	-
TOTAL OTHER LIABILITIES	32,856,946	25,340,953
TOTAL LIABILITIES	34,151,677	31,830,773
NET ASSETS		
Without Donor Restrictions	1,192,888	3,443,623
With Donor Restrictions	34,673,433	1,022,249
TOTAL NET ASSETS	35,866,321	4,465,872
TOTAL LIABILITIES AND NET ASSETS	$ 70,017,998	$ 36,296,645

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

COMMUNITY EDUCATION BUILDING CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT FROM OPERATIONS			
Contributions	$ 1,051,713	$ 36,333,586	$ 37,385,299
Food Service Income	1,255,680	-	1,255,680
Rental Income	2,559,599	-	2,559,599
	4,866,992	36,333,586	41,200,578
Net Assets Released from Restrictions	2,682,402	(2,682,402)	-
TOTAL REVENUE AND SUPPORT FROM OPERATIONS	7,549,394	33,651,184	41,200,578
EXPENSES			
Program Services	6,029,202	-	6,029,202
Supporting Services			
General and Administrative	861,181	-	861,181
Fundraising and Development	169,730	-	169,730
Total Supporting Services	1,030,911	-	1,030,911
TOTAL EXPENSES	7,060,113	-	7,060,113
CHANGE IN NET ASSETS FROM OPERATIONS	489,281	33,651,184	34,140,465
OTHER SUPPORT AND REVENUE			
Loss on Derivative Contract	(2,740,016)	-	(2,740,016)
CHANGE IN NET ASSETS	(2,250,735)	33,651,184	31,400,449
NET ASSETS - Beginning of Year	3,443,623	1,022,249	4,465,872
NET ASSETS - End of Year	$ 1,192,888	$ 34,673,433	$ 35,866,321

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

COMMUNITY EDUCATION BUILDING CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT FROM OPERATIONS			
Contributions	$ 1,582,660	$ 1,884,338	$ 3,466,998
Food Service Income	1,169,273	-	1,169,273
Events Income	2,539	-	2,539
Rental Income	2,590,960	-	2,590,960
Insurance Settlement Proceeds	66,298	-	66,298
	5,411,730	1,884,338	7,296,068
Net Assets Released from Restrictions	867,089	(867,089)	-
TOTAL REVENUE AND SUPPORT FROM OPERATIONS	6,278,819	1,017,249	7,296,068
EXPENSES			
Program Services	4,917,287	-	4,917,287
Supporting Services			
General and Administrative	983,457	-	983,457
Fundraising and Development	245,864	-	245,864
Total Supporting Services	1,229,321	-	1,229,321
TOTAL EXPENSES	6,146,608	-	6,146,608
CHANGE IN NET ASSETS FROM OPERATIONS	132,211	1,017,249	1,149,460
OTHER SUPPORT AND REVENUE			
Gain on Derivative Contract	547,985	-	547,985
CHANGE IN NET ASSETS	680,196	1,017,249	1,697,445
NET ASSETS - Beginning of Year	2,763,427	5,000	2,768,427
NET ASSETS - End of Year	$ 3,443,623	$ 1,022,249	$ 4,465,872

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

COMMUNITY EDUCATION BUILDING CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	2019			
	Program Services	General and Administrative	Fundraising and Development	Total
Salaries	$ 573,546	$ 474,311	$ 140,000	1,187,857
Payroll Taxes	40,195	33,240	9,811	83,246
Employee Benefits	65,282	53,987	15,935	135,204
Total Salaries and Related Expenses	679,023	561,538	165,746	1,406,307
Depreciation	1,088,116	11,256	985	1,100,357
Library Subscriptions	-	31,786	-	31,786
Equipment	71,997	743	66	72,806
Facilities Rent	72,110	744	66	72,920
Food Services	868,099	-	-	868,099
Insurance	210,097	2,167	191	212,455
Interest	1,163,681	12,003	1,059	1,176,743
Janitorial	377,431	3,893	344	381,668
Legal and Accounting Fees	5,609	53,114	-	58,723
Occupancy	377,606	3,895	344	381,845
Office Expense	84,891	876	77	85,844
Professional Contract Services	94,579	133,876	-	228,455
Professional Development	-	35,636	-	35,636
Repairs and Maintenance	599,719	6,186	546	606,451
Security	254,845	2,629	232	257,706
Supplies	42,308	436	39	42,783
Systems - Technology	31,189	322	28	31,539
Travel	7,902	81	7	7,990
TOTAL EXPENSES	$ 6,029,202	$ 861,181	$ 169,730	$ 7,060,113

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

COMMUNITY EDUCATION BUILDING CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 31,400,449	$ 1,697,445
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Depreciation	1,100,357	1,091,862
Loss (Gain) on Derivative Contract	2,740,016	(547,987)
Amortization of Loan Origination Fees in Interest Expense	234,194	8,820
Accrued Interest Refinanced with Long-term Debt	59,659	-
Noncash Contribution Received - Property	(320,000)	-
Changes in Assets and Liabilities		
Accounts Receivable	(449,659)	34,702
Contribution Receivable - Debt Service	(32,577,074)	-
Contribution Receivable - Other	(133,333)	-
Deposits and Prepaid Expenses	13,034	(32,892)
Accounts Payable and Accrued Expenses	117,094	(25,263)
Deposits Payable	(24,400)	5,818
NET CASH FROM OPERATING ACTIVITIES	2,160,337	2,232,505
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(918,705)	(1,024,217)
Payments Receivable from Derivative Contract Termination	57,500	-
NET CASH FROM INVESTING ACTIVITIES	(861,205)	(1,024,217)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-term Debt	(738,392)	(617,000)
Proceeds from Long-Term Debt	3,680	500,000
NET CASH FROM FINANCING ACTIVITIES	(734,712)	(117,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	564,420	1,091,288
CASH AND RESTRICTED CASH - Beginning of Year	2,036,406	945,118
CASH AND RESTRICTED CASH - End of Year	$ 2,600,826	$ 2,036,406
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash Paid for Interest	$ 882,890	$ 847,243
Noncash Investing and Financing Activities		
Noncash Contribution Received - Property	$ 320,000	$ -
Property and Equipment Acquisitions Included in Accounts Payable	$ 33,346	$ -
Loan Origination Fees Capitalized and Financed with Long-term Debt	$ 253,146	$ -

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

NOTE 1: NATURE OF ACTIVITIES

The Community Education Building Corp. (CEB), a not-for-profit organization, was founded in 2012 and is located in Wilmington, Delaware. CEB's vision is to help all students attending its tenant schools to be fully prepared for educational advancement or career, and to become lifelong learners. Its mission is to transform urban K-12 public education through collaborative partnerships with its tenant schools and others, including funders like the Longwood Foundation.

CEB's innovative model seeks to use all of its resources to bring educational opportunity and equity to all children by: 1) providing schools with a safe and inviting place to learn and work; 2) offering co-location and shared services that save valuable financial and human capital resources; 3) integrating student and family supports to help students come to school ready to learn; 4) serving as a catalyst for collaboration and innovation for educational excellence among our partners; and 5) advocating for our schools, students, and families to promote equitable educational opportunity..

PS#5, LLC is a wholly owned subsidiary formed exclusively to further the purposes of CEB. Community Education Building Realty Corp. is a Delaware corporation formed exclusively to further the purposes of CEB. The above entities are collectively referred to as the Organization.

The vision of the Organization was made possible by the generosity of Bank of America and the Longwood Foundation. In 2012, Bank of America donated its center city Wilmington, Delaware office building to the Organization for the purpose of transforming it into a home for high-performing charter schools with an emphasis on providing world class K-12 public education for Wilmington's children. With financing obtained by the Organization, including proceeds from a tax-exempt conduit financing issued by the City of Wilmington, the building was repurposed into a facility offering turn-key space to a number of charter schools serving up to 1,800 students.

In December 2018, the Organization refinanced its original debt obligations associated with its infrastructure transformation (Note 8). Building on its commitment to public education and the nonprofit community, the Longwood Foundation believed the Organization's impact would be enhanced if the Organization was relieved of its debt service obligations required under the refinance, so that those funds could be redirected to a host of additional supports, both capital and programmatic, serving the Organization's tenant schools and their students. As such, the Longwood Foundation entered into a Continuing Support Agreement with the Organization. In accordance with that agreement, the Longwood Foundation will guarantee the Organization's refinanced bond debt and meet all debt service obligations over the life of the refinanced debt (Note 6). The Longwood Foundation will provide grant proceeds to the Organization annually to support the payment of interest and principal required by the Organization's bond payable debt obligations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader. The consolidated financial statements and notes are representations of management, who is responsible for their integrity and objectivity.

Principles of Consolidation - The consolidated financial statements include the accounts of Community Education Building Corp., PS#5, LLC, and Community Education Building Realty Corp. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are referred to as the Organization.

Basis of Accounting - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). Consequently, revenue and gains are recognized when earned and expenses and losses are recognized when incurred.

Cash and Cash Equivalents - For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments, available for current use, with an initial maturity of three months or less to be cash equivalents.

Restricted cash held for long-term purposes is presented separately in the consolidated statements of financial position. As a condition of its financing agreements, the Organization is required to maintain a separate account to receive support donor-restricted for debt service (Note 6). Use of funds from this account is limited to debt service. This account is presented as restricted cash - debt service in the consolidated statements of financial position.

***Receivables and Credit Policies* -** Accounts receivable are stated at net realizable value. Accounts receivable consist primarily of noninterest-bearing amounts due for tenant rents and food service income. The Organization determines an allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. As of June 30, 2019 and 2018, there was no allowance.

Operating and Non-Operating Classification - Support, revenue and expenses are classified in the consolidated statements of activities as operating and non-operating. The operating classification includes contribution revenue, rental income, food service fee income, and other income and expenses of operating the Organization. The non-operating classification includes the change in value of the interest rate swap agreement.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

***Contributions Receivable* -** The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statements of activities. The Organization evaluates the need allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

Property and Equipment - Property and equipment with an estimated useful life in excess of one year are capitalized at cost if purchased and at fair market value if donated. The Organization capitalizes all expenditures for property and equipment in excess of $5,000. Depreciation expense is provided using the straight-line method over the estimated useful lives of the respective assets (generally five to seven years for equipment and furniture and thirty-nine years for buildings). Upon retirement or disposition of property and equipment, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of activities.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2019 and 2018.

***Derivative Financial Instruments* -** The Organization holds derivative financial instruments for the purpose of hedging the risks of certain identifiable transactions. The Organization uses an interest-rate swap to mitigate interest-rate risk on its long-term debt (Note 8). The related liability or asset is reported at fair value in the consolidated statements of financial position, and unrealized gains or losses are included in the consolidated statements of activities as other support and revenue.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
>
> *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. 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 and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition - Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Contributions subject to donor- or grantor-imposed restrictions are recorded as net assets with donor restrictions and are reclassified as net assets without donor restrictions when the donor- or grantor-imposed restriction has been fulfilled or the stipulated time period has elapsed.

Volunteers may contribute time to the Organization's program service activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by U.S. GAAP. Contributed goods are recorded at fair value at the date of donation. The Organization recognizes donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended June 30, 2019 and 2018.

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes - Community Education Building Corp. is a not-for-profit entity that is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for federal, state or local income tax in the accompanying consolidated financial statements. In addition, Community Education Building Corp. has been determined by the Internal Revenue Service to be a "private operating foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

PS#5, LLC is a limited liability company which is wholly owned and operated by Community Education Building Corp. and, therefore, made no provision for federal, state or local income tax in the accompanying consolidated financial statements.

Community Education Building Realty Corp. is a corporation which is wholly owned and operated by Community Education Building Corp. Community Education Building Realty Corp. had no financial activity during the years ended June 30, 2019 and 2018 and, therefore, made no provision for federal, state, or local income tax in the accompanying consolidated financial statements.

The Organization adheres to ASC 740-10, *Income Taxes*, as it relates to uncertain tax positions. Management has reviewed its current and past federal income tax positions and has determined, based on clear and unambiguous tax law and regulations, that the tax positions taken are certain and that there is no likelihood that a material tax assessment would be made if a respective government agency examined tax returns subject to audit. Accordingly, no provision for the effects of uncertain tax positions has been recorded.

Currently, the 2016, 2017 and 2018 tax years are open and subject to examination by the Internal Revenue Service. However, the Organization is not currently under audit nor has the Organization been contacted by this jurisdiction. Interest and penalties related to income taxes are included in income tax expense when incurred.

Functional Allocation of Expenses **-** The costs of program and supporting service activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs **-** The costs of advertising are expensed as incurred. There were no advertising expenses during the years ended June 30, 2019 and 2018.

Loan Origination Fees - Loan origination fees represent costs incurred in connection with obtaining long-term financing. In accordance with FASB ASC 835-50, *Imputation of Interest*, the Organization presents debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Amortization of loan origination fees

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loan Origination Fees - Continued - is calculated using the straight-line method over the term of the related financing agreement and is included in interest expense on the consolidated statement of functional expenses.

Reclassifications **-** Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events - The Organization's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements. Management has evaluated events and transactions through the date of the independent auditors' report, which is the date the consolidated financial statements were available to be issued.

Financial Instruments and Credit Risk **-** The Organization manages deposit concentration risk by placing cash with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured amounts. To date, the Organization has not experienced losses in any of these accounts.

Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from organizations supportive of the Organization’s mission.

Change in Accounting Principle - On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

A key change required by ASU 2016-14 relates to the net asset classes used in these consolidated financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions (Note 16).

NOTE 3: AVAILABILITY AND LIQUIDITY

The following reflects the Organization's financial assets as of the date of the consolidated statement of financial position, reduced by amounts not available for general use because of contractual, board designation, or donor-imposed restrictions within one year of the consolidated statement of financial position date.

Financial Assets as of June 30, 2019	
Cash	$ 698,049
Cash - Restricted For Debt Service	1,493,257
Cash - Tenant Deposits	6,418
Cash - Restricted for Investment in Capital	403,102
Accounts Receivable	471,901
Financial Assets as of June 30, 2019	3,072,727
Less Amounts Not Available for General Expenditures Within a Year	
Donor Restricted - Purpose Restricted For Debt Service	(1,493,257)
Donor Restricted - Purpose Restricted For Investment in Capital Assets	(403,102)
Deposits Payable Held in Cash	(6,418)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 1,169,950

The Organization's short-term liquidity plan is to maintain readily available resources, including operating cash, to cover expenses as they come due. The Organization's goal is to maintain 90 days of working capital.

In July 2019, the Organization entered into a revolving demand note credit agreement with a financial institution to borrow up to $1,000,000 (Note 15). The line of credit could be used by the Organization in the event of a liquidity need.

The Longwood Foundation has established a donor-advised fund at a local community foundation with the intent of making grants from the fund to the Organization. This donor advised fund is not recognized as an asset in the consolidated statements of financial position of the Organization, however, the Organization anticipates distributions received from the fund will be available to meet cash needs for general expenditures during the year ending June 30, 2020.

NOTE 4: CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

The following is a summary of cash and restricted cash as reported on the consolidated statements of cash flows:

	2019	2018
Cash	$ 698,049	$ 1,003,339
Cash - Restricted For Debt Service	1,493,257	-
Cash - Tenant Deposits	6,418	30,818
Cash - Restricted for Investment in Capital	403,102	1,002,249
	$ 2,600,826	$ 2,036,406

NOTE 5: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes and periods as of June 30:

	2019	2018
Subject to Expenditure for Specified Purpose		
Purpose Restricted for Debt Service		
Longwood Foundation Support for Obligations of Long-term Debt	$ 34,070,331	$ -
Purpose Restricted For Capital Projects		
Library	-	6,810
Elevator Improvements	403,102	775,240
Athletic Facility Design	-	22,875
Land Improvements	-	195,950
Other Capital Projects	-	1,374
Total Purpose Restricted For Capital Projects	403,102	1,002,249
Purpose Restricted for Program Initiatives		
Behavioral Health Initiatives	200,000	-
Springboard Literacy Program	-	20,000
Total Purpose Restricted For Program Initiatives	200,000	20,000
Total Net Assets with Donor Restrictions	$ 34,673,433	$ 1,022,249

NOTE 6: CONTRIBUTIONS RECEIVABLE

Contribution Receivable - Debt Service - As of June 30, 2019, contributions receivable by the Organization for debt service were the result of a commitment from the Longwood Foundation to provide the support needed to service its long-term debt (Note 8). On November 29, 2018, the Organization entered into the Continuing Support Agreement with the Longwood Foundation. On December 27, 2018, the Organization entered into the Guaranty Agreement with the Longwood Foundation and Capital One Municipal Funding/Capital One, N.A. (hereinafter collectively referred to as Capital One). Under the terms of the agreements, the Longwood Foundation unconditionally guarantees, as a primary obligor, the prompt payment and performance of the Organization's bonds payable long-term debt and any obligations of the Organization under its interest rate swap agreement.

Covenants associated with the agreements restrict the Organization's ability to incur additional long-term debt without the approval of Capital One.

The Longwood Foundation will provide grant proceeds to the Organization annually to support the payment of interest and principal required by the Organization's debt obligations.

As a result of the terms of the Agreement, the carrying amount of contributions receivable reflect the present value of the Organization's obligations from its bonds payable long-term debt. The Organization uses as a discount rate, the effective interest rate on the guaranteed long-term debt. As a result, the carrying amount of the contributions receivable will at all times equal the outstanding principal balance of its bonds payable long-term debt increased by the fair value of its interest rate swap liability, and reduced for any cash deposits on hand received from the Longwood Foundation under the terms of this funding commitment.

Contribution Receivable - Other - Other contributions receivable include a pledge expected to be received during the years ending June 30, 2020 and 2021 that was restricted by the donor for behavioral health initiatives.

Contributions receivable appears as follows in the consolidated statements of financial position:

	2019	2018
Contributions Receivable - Debt Service	$ 472,271	$ -
Contribution Receivable - Other	66,666	-
Contributions Receivable - Debt Service (Net of Current Portion)	32,104,803	-
Contribution Receivable - Other (Net of Current Portion)	66,667	-
Total Contributions Receivable	$ 32,643,740	$ -

NOTE 6: CONTRIBUTIONS RECEIVABLE - CONTINUED

With respect to the contribution receivable from the Longwood Foundation, the timing of expected current and future payments is based on the future maturities of the bond payable debt. Therefore, the amounts in the chart represent cash flows discounted at rates consistent with the bonds payable. Other contributions receivable are expected to be collected over the next two years and have not been discounted due to its immaterial effect on the consolidated financial statements.

Contributions receivable are expected to be collected as follows:

	2019	2018
Contributions Receivable		
Within One Year	$ 538,937	$ -
In One to Five Years	5,120,839	-
After Five Years	26,983,964	-
	32,643,740	-
Allowance for Uncollectable Accounts	-	-
Total Contributions Receivable	$ 32,643,740	$ -

The amounts reflected in the chart above are net of a present value discount that is estimated based on the future interest costs of the bond payable long-term debt. The estimated present value discount as of June 30, 2019 was $10,998,509.

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2019	2018
Land and Land Improvements	$ 2,665,252	$ 2,335,503
Building	34,193,625	34,149,837
Construction in Progress	1,296,296	452,020
Office Furniture and Equipment	1,253,356	1,199,118
	39,408,529	38,136,478
Less Accumulated Depreciation	5,200,661	4,100,304
Property and Equipment - Net	$ 34,207,868	$ 34,036,174

NOTE 8: LONG-TERM DEBT

Series 2018 City of Wilmington, Delaware Revenue Bond - Under a Bond Purchase and Loan Agreement among the Organization, the City of Wilmington, Delaware (City/Issuer), Capital One (Bondholder), dated December 2018, the City issued its Revenue Bond (Community Education Building Corp. Project) Series 2018, in the principal amount of $30,760,000 (Series 2018 Bond) which was purchased by Capital One. The Organization entered into a promissory note payable to the City in the aggregate amount of the Series 2018 Bond. The City transferred and assigned to Capital One its rights under the promissory note.

The proceeds of the Series 2018 Bond issuance were used by the Organization to refinance its existing debt.

The unpaid principal balance of the Series 2018 Bond bears interest calculated at 79% of 30-day LIBOR (adjusted monthly) plus 0.82%. The Series 2018 Bond requires payment of interest only through February 2020. Commencing on March 2, 2020 monthly principal plus interest payments are due with a final payment of all unpaid principal plus accrued interest payable on December 27, 2038, the maturity date of the Series 2018 Bond. The initial monthly principal payment of $99,459 increases annually per the terms of the agreement. The effective interest rate of the Series 2018 Bond as of June 30, 2019 was 2.75%. The outstanding balance of the Series 2018 Bond was $30,760,000. The Series 2018 Bond is guaranteed by the Longwood Foundation and is included in the terms of the Guaranty Agreement (Note 6).

Series 2018A Community Education Building Taxable Bond - Under the Bond Purchase and Loan Agreement, the Organization delivered to Capital One, dated December 2018, its taxable bond (Community Education Building Corp. Project) Series 2018A, in the principal amount of $1,100,000 (Series 2018A Bond).

The proceeds of the of the Series 2018A Bond issuance were used by the Organization to refinance its existing debt.

The unpaid principal balance of the Series 2018A Bond bears interest calculated at the 30-day LIBOR (adjusted monthly) plus 1.04%. The Series 2018A Bond requires 13 payments of principal plus interest through the maturity date of February 2020. The monthly principal payment amount is $84,615. The effective interest rate of the Series 2018A Bond as of June 30, 2019 was 3.48%. The outstanding balance of the Series 2018A Bond was $674,608. The Series 2018A Bond is guaranteed by the Longwood Foundation and is included in the terms of the Guaranty Agreement (Note 6).

Series 2014 City of Wilmington, Delaware Revenue Bond - Under a Bond Purchase and Loan Agreement among the Organization, the City (Issuer), and Capital One (Bondholder), the City issued its Revenue Bond (Community Education Building Corp. Project) Series 2014, in the principal amount of $24,300,000 (Series 2014 Bond) which was purchased by Capital One. The proceeds of the Series 2014 Bond were used to refinance the prior demand note payable and finance a portion of a capital improvement program.

NOTE 8: LONG-TERM DEBT - CONTINUED

The Series 2014 Bond required monthly payments of principal (as scheduled) and interest through maturity in April 2044. The interest rate was 65% of 30-day LIBOR (adjusted monthly) plus 0.95%. The outstanding balance of the Series 2014 Bond as of June 30, 2018 was $22,738,000. The Series 2014 Bond was paid in full during the year ended June 30, 2019 with the Series 2018 Bond refinance.

Demand Note (Capital One) - As of June 30, 2018, the Organization had a demand note payable against a $7,200,000 revolving line of credit with Capital One. The outstanding balance due was $6,318,515. The credit agreement incurred interest at LIBOR plus 1.10%. The credit agreement was due on demand, designated for working capital and construction purposes, and was guaranteed by and collateralized by certain investments of the Longwood Foundation. The demand note payable to Capital One was paid in full during the year ended June 30, 2019 with the Series 2018 Bond refinance.

Term Loan (Capital One) - As of June 30, 2018, the Organization had a term loan with Capital One Bank totaling $2,800,000. The term loan incurred interest at LIBOR plus 1.35%. The term loan required interest only through its scheduled maturity on May 1, 2021. The term loan payable to Capital One was paid in full during the year ended June 30, 2019 with the Series 2018 Bond refinance.

Long-term debt consisted of the following as of June 30:

	2019	2018
Series 2018 Bond	$ 30,760,000	$ -
Series 2018A Bond	674,608	-
Series 2014 Bond	-	22,738,000
Demand Note	-	6,318,515
Term Loan	-	2,800,000
	31,434,608	31,856,515
Unamortized Loan Origination Fees	(246,817)	(227,865)
Total Long-term Debt	$ 31,187,791	$ 31,628,650

NOTE 8: LONG-TERM DEBT - CONTINUED

As of June 30, 2019, future maturities of long-term debt consisted of the following:

	Series 2018 Bond	Series 2018A Bond	Total
2020	$ 298,378	$ 674,608	$ 972,986
2021	1,203,264	-	1,203,264
2022	1,242,586	-	1,242,586
2023	1,283,193	-	1,283,193
2024	1,325,128	-	1,325,128
Thereafter	25,407,451	-	25,407,451
	$ 30,760,000	$ 674,608	$ 31,434,608

Financing agreements include the following commitments, covenants, and restrictions with respect to the Series 2018 Bond and Series 2018A Bond:

- The Organization and the Longwood Foundation shall not amend, terminate, or waive any terms of their Continuing Support Agreement without prior written consent of Capital One (Note 6).
- The Organization shall not dispose or transfer the facility without the approval of Capital One, approval of which cannot be unreasonably withheld.
- The Longwood Foundation must maintain certain Financial Covenants and meet certain Financial Reporting Requirements.

NOTE 9: DERIVATIVE CONTRACTS - INTEREST RATE SWAP

In the normal course of business, the Organization is subject to risk from adverse fluctuations in interest rates. The Organization manages this risk through the use of interest rate swap derivative instruments. The Organization does not use derivative instruments for trading or speculative purposes. The Organization’s interest rate swap derivative contracts are recognized in the consolidated financial statements at fair value.

NOTE 9: DERIVATIVE CONTRACTS - INTEREST RATE SWAP - CONTINUED

As of June 30, 2019, the Organization was party to an interest rate swap agreement with Capital One. The outstanding notional amount and maturity of the agreement correlate to the outstanding principal balance and maturity date of the Series 2018 Bond (Note 8). The interest rate swap agreement is a pay fixed/receive variable that will require the Organization to pay the difference between the fixed rate and variable rate identified in the agreement if the fixed rate exceeds the variable rate. The Organization will be entitled to receive the difference between the fixed rate and variable rate stated in the agreement if the variable rate exceeds the fixed rate. The fixed rate per the agreement is 2.37%. The variable rate per the agreement is 79% of the 30-day LIBOR. A security interest in the derivative contract was assigned to Capital One. The fair value of the interest rate swap derivative contract presented as a liability in the consolidated statement of financial position as of June 30, 2019 was a liability of $2,635,723.

As of June 30, 2018, the Organization was party to an interest rate swap agreement with Capital One for the total principal amount of the Series 2014 Bond. The agreement adjusted the variable rate of 65% of the 30-day LIBOR rate plus 0.95% to a fixed rate of 1.51% per annum through May 1, 2021. The fair value of the interest rate swap derivative contract in the consolidated statement of financial position as of June 30, 2018 was an asset of $136,203. This agreement was terminated in December 2018 with the refinance of the Series 2014 Bond.

As of June 30, 2018, the Organization was party to an interest rate swap agreement with Capital One for the total principal amount of the Capital One term loan. The agreement adjusted the variable rate of the 30-day LIBOR rate plus 1.35% to a fixed rate of 2.345% per annum through May 1, 2021. The fair value of the interest rate swap derivative contract in the consolidated statement of financial position as of June 30, 2018 was an asset of $25,590. This agreement was terminated in December 2018 with the refinance of the Series 2014 Bond.

In consideration for termination of the interest rate swap agreements associated with the Series 2014 Bond and Capital One term loan in December 2018, the Organization received payments totaling $57,500. The amounts were recorded as change in value of derivative contract.

For the years ended June 30, 2019 and 2018, gain (loss) on derivative contracts were ($2,740,016) and $547,985, respectively.

NOTE 10: FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements Disclosures*, establishes a fair value hierarchy and specifies that a valuation technique used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

As of June 30, 2019 and 2018, the derivative contract - interest rate swap of the Organization was categorized in Level 2, as the fair value is calculated as the difference between the fixed rate according to the interest rate swap agreement and the variable rate the debt carries.

NOTE 11: FUNCTIONALIZED EXPENSES

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

NOTE 12: LEASES

Lessee Leasing Arrangements - The Organization leases gymnasium space. During June 2018, the lease was renewed for an additional two years with an annual rent payment increasing by 3% annually. Rental expense for the years ended June 30, 2019 and 2018 totaled $52,920. Future minimum lease payments to be disbursed as of June 30, 2019 total $54,500 all of which is expected to be disbursed during fiscal year ending June 30, 2020.

The Organization leases parking lot space on a year to year basis. Rental expense for the years ended June 30, 2019 and 2018 totaled $20,000.

Lessor Leasing Arrangements - As of June 30, 2019, the Organization had three lease agreements with charter schools and an education based nonprofit organization to occupy portions of the Organization's building. The leases contain options to renew for periods that are aligned with the tenant's charter renewals by the Delaware Department of Education. Future minimum lease payments to be received as of June 30, 2019 approximate $2,535,000, all of which is expected to be received during fiscal year ending June 30, 2020.

NOTE 13: PENSION PLAN

The Organization has a 403(b) plan covering all eligible employees. The Organization makes a dollar for dollar matching contribution of 3%. The employee can voluntarily contribute a percentage of their annual compensation with contributions limited as defined by the IRS. Total pension expense amounted to $12,276 and $15,971 for the years ended June 30, 2019 and 2018, respectively.

NOTE 14: RELATED-PARTY TRANSACTIONS

Members of the Organization’s board of directors are the president and a member of the board of directors of the Longwood Foundation. The Longwood Foundation’s representation on the Organization’s board of directors does not constitute a majority of the Organization’s governing board. As disclosed in these notes to the consolidated financial statements, the Longwood Foundation has committed to providing continued support to the Organization.

During the year ended June 30, 2019, approximately $125,000 of professional service costs associated with the long-term debt refinance were disbursed to a professional service firm in which a member of the Organization’s board of directors is affiliated.

NOTE 15: SUBSEQUENT EVENTS

The estimated fair value of the interest rate swap derivative contract presented as a liability in the consolidated statement of financial position as of the date of the independent auditor’s report was a liability of approximately $4,000,000.

NOTE 15: SUBSEQUENT EVENTS - CONTINUED

In July 2019, the Organization entered into a revolving demand note credit agreement with a financial institution to borrow up to $1,000,000. There have been no borrowings on the credit line through the date the financial statements were available to be issued. The effective interest rate of the line of credit is the one-month LIBOR plus 1.90%.

NOTE 16: ADJUSTMENTS TO PRIOR PERIOD FINANCIAL STATEMENTS

As discussed in Note 2 to the consolidated financial statements, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended June 30, 2019. The requirements of this new accounting pronouncement have been applied retrospectively to all periods presented.

The effect of the above-referenced implementation of the new accounting pronouncement on the June 30, 2018 consolidated financial statements is as follows:

	As Previously Reported	Effect of New Accounting Pronouncement	As Restated
Net Assets - Unrestricted	$ 3,443,623	$ (3,443,623)	$ -
Net Assets - Temporarily Restricted	102,229	(102,229)	-
Net Assets - Without Donor Restrictions	-	3,443,623	3,443,623
Net Assets - With Donor Restrictions	-	102,229	102,229
Total Net Assets	$ 3,545,852	$ -	$ 3,545,852

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Community Education Building Corp.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Community Education Building Corp. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Community Education Building Corp.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Education Building Corp.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Community Education Building Corp.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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To the Board of Directors
Community Education Building Corp.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and recommendations, that we consider to be significant deficiencies as finding 2019-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Education Building Corp.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Community Education Building Corp.'s Response to Findings

The Community Education Building Corp.'s response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Community Education Building Corp.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

October 4, 2019
Wilmington, Delaware

SINGLE AUDIT

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Community Education Building Corp.

Report on Compliance for Each Major Federal Program

We have audited Community Education Building Corp.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Community Education Building Corp.'s major federal programs for the year ended June 30, 2019. Community Education Building Corp.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Community Education Building Corp.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Education Building Corp.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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To the Board of Directors
Community Education Building Corp.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Community Education Building Corp.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Community Education Building Corp. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Community Education Building Corp. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Education Building Corp.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Education Building Corp.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Community Education Building Corp.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

October 4, 2019
Wilmington, Delaware

COMMUNITY EDUCATION BUILDING CORP. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Pass-Through Programs			
U.S. Department of Agriculture			
Delaware State Department of Education			
Child Nutrtion Cluster			
School Breakfast Program	10.553	$ 213,373	$ -
National School Lunch Program	10.555	463,284	-
Summer Food Service Program	10.559	31,008	-
Total Child Nutrition Cluster		707,665	-
Other Programs			
Child and Adult Care Food Program	10.558	47,271	-
Fresh Fruit and Vegetable Program	10.582	35,841	-
Total Other Programs		83,112	-
Total U.S. Department of Agriculture		$ 790,777	$ -
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 790,777	$ -

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Education Building Corp. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements. The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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COMMUNITY EDUCATION BUILDING CORP. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2019

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report Issued:	Unmodified	
Internal Control Over Financial Reporting:		
• Material Weaknesses Identified?	___ Yes	_x_ No
• Significant Deficiencies Identified that are Not Considered to be Material Weaknesses?	_x_ Yes	___ None Reported
Noncompliance Material to Financial Statements Noted?	___ Yes	_x_ No

Federal Awards

Internal Control Over Major Programs:		
• Material Weaknesses Identified?	___ Yes	_x_ No
• Significant Deficiencies Identified that are not Considered to be Material Weaknesses?	___ Yes	_x_ None Reported
Type of Auditors' Report Issued on Compliance for Major Programs:	Unmodified	
Any Audit Findings Disclosed that are Required to be Reported in Accordance with 2 CFR Section 200.516(a)?	___ Yes	_x_ No

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program

Dollar Threshold Used to Distinguish between Type A and Type B Programs:	$ 750,000	
Auditee Qualified as Low-Risk Auditee?	___ Yes	_x_ No

II. FINANCIAL STATEMENT FINDINGS

Reference Number: 2019-001
Type of Finding: Significant Deficiency
Material Audit Adjustments

Condition: The following material audit adjustments were proposed during the audit to present the consolidated financial statements in accordance with U.S. GAAP.

- Recognition of a liability and loss resulting from entering into an interest rate swap derivative contract with a net value of approximately $2,740,000 during the year.
- Recognition of an increase in the carrying amount of a contribution receivable from the Longwood Foundation by approximately $3,000,000 to account for the present value of all guaranteed indebtedness of the Organization.

Criteria: Organization’s accounting policies require financial statements be prepared in accordance with U.S. GAAP.

Cause: During the year, the Organization entered into several complex transactions that required accounting for nonroutine transactions with respect to initial measurement and recognition. Among these transactions was an interest rate swap derivative contract. The Organization was not provided with a report from the financial institution providing current fair value information with respect to the interest rate swap derivative contract until it was requested during the audit process. Additionally, the carrying amount of the contribution receivable from the Longwood Foundation required adjustment to take into consideration the fair value of the interest rate swap derivative contract as well. The carrying amount of the contribution receivable also required an annual present value adjustment which approximates the annual interest costs of the Organization’s long-term debt covered under the guaranty agreement. The nature of the transactions were nonrecurring and nonroutine with respect to the Organization’s activities, and therefore, were not the result of a deficiency in its accounting processes related to processing standard recurring transactions.

Recommendation: We recommend the Organization include in its period end financial reporting processes procedures to adjust the balances of its interest rate swap derivative contract and contributions receivable to report in a timely manner in accordance with U.S. GAAP.

Views of Responsible Officials and Planned Corrective Actions: The Organization has designed accounting procedures to eliminate the need for future audit adjustments with respect to the value of interest rate swap agreements and contributions receivable.

Responsible Official Position: Vice President of Finance and Operations

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No Current Year Findings

COMMUNITY EDUCATION BUILDING CORP. AND SUBSIDIARIES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2019

Reference Number: 2018-001

Condition: The Organization submitted inaccurate meal reimbursement claims reports for the fiscal year 2018.

Criteria: Best practices dictate that Organizations establish and implement policies and procedures that cover the processes and instructions for recording and maintaining the federal meal reimbursement claims.

Effect: Due to the manual tracking of meals served, the records are subject to mathematical errors that may result in inaccurate reports and reimbursement claims. This condition could also present problems when documents are needed in support of other reports subject to audit.

Status of Prior Year Finding: No similar findings were identified during the current audit.

Reference Number: 2018-002

Condition: The Organization did not maintain separate accounting or a separate school food account (SFA) for the Child Nutrition Cluster funds.

Criteria: An SFA is required to account for all revenues and expenditures of its non-profit school food service in accordance with State requirements. An SFA must operate its food services on a non-profit basis; all revenue generated by the school food service must be used to operate and improve its food services.

Effect: Not timely reconciling and transferring monies for the food program to the proper account could potentially lead to the funds being used for purposes that are not for the benefit of the school food service.

Status of Prior Year Finding: No similar findings were identified during the current audit.