



CITY YEAR, INC.

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.us.kpmg.com

Independent Auditors' Report

The Board of Trustees
City Year, Inc.:

We have audited the accompanying statements of financial position of City Year, Inc. (City Year) as of June 30, 2008 and 2007, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of City Year's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on City Year's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Year as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

January 9, 2009

CITY YEAR, INC.

Statements of Financial Position

June 30, 2008 and 2007

Assets	2008	2007
Cash and equivalents	\$ 3,744,522	4,026,387
Government grants receivable, net	5,138,248	5,614,876
Contributions receivable, net (note 8)	11,956,497	10,279,798
Other assets	649,628	593,852
Investments, at fair value (note 7)	7,370,679	8,747,804
Property and equipment, net (notes 9 and 10)	18,421,633	17,313,983
Total assets	<u>\$ 47,281,207</u>	<u>46,576,700</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses (note 14)	\$ 3,000,962	2,791,068
Accrued payroll and related expenses	1,580,401	1,411,533
Deferred revenue (note 9)	3,611	99,995
Line of credit (note 13)	—	3,500,000
Revolving bridge loan (note 13)	2,000,000	2,998,966
Bonds payable (note 14)	9,000,000	9,000,000
Total liabilities	<u>15,584,974</u>	<u>19,801,562</u>
Commitments and contingencies (notes 11, 12 and 14)		
Net assets:		
Unrestricted	13,343,832	10,232,564
Temporarily restricted (note 3)	13,820,748	12,010,921
Permanently restricted (note 4)	4,531,653	4,531,653
Total net assets	<u>31,696,233</u>	<u>26,775,138</u>
Total liabilities and net assets	<u>\$ 47,281,207</u>	<u>46,576,700</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Activities

Years ended June 30, 2008 and 2007

	2008	2007
Changes in unrestricted net assets:		
Operations:		
Revenues and other support:		
Contributions and private grants (note 6)	\$ 28,769,131	23,487,983
Contributions and private grants – capital campaign (note 10)	2,120,470	3,259,600
Federal grants – Corporation for National and Community Service (note 11)	14,508,080	12,808,586
Other government grants	5,237,277	4,144,470
Investment return utilized for operations (note 7)	324,081	307,852
Other income (note 9)	103,623	866,858
Net assets released from restrictions (note 5)	7,176,886	7,797,781
Total operating revenues and other support	58,239,548	52,673,130
Expenses:		
Program services	44,967,806	38,456,461
Support services:		
Organizational support	4,657,598	4,789,323
Fundraising	5,049,842	4,716,144
Total support services	9,707,440	9,505,467
Total expenses	54,675,246	47,961,928
Increase in unrestricted net assets from operations	3,564,302	4,711,202
Nonoperating transactions:		
Investment return in excess of amounts utilized for operations (note 7)	—	230,982
Unrealized net losses on changes in fair value of interest-rate swaps (note 14)	(453,034)	(27,951)
Other changes (note 15)	—	(154,724)
(Decrease) increase in unrestricted net assets from nonoperating transactions	(453,034)	48,307
Increase in unrestricted net assets	3,111,268	4,759,509
Changes in temporarily restricted net assets:		
Contributions	9,926,219	4,763,305
Unspent realized and unrealized net (losses) gains on endowments (note 7)	(939,506)	809,652
Other changes (note 15)	—	(856,264)
Net assets released from restrictions (note 5)	(7,176,886)	(7,797,781)
Increase (decrease) in temporarily restricted net assets	1,809,827	(3,081,088)
Increase in net assets	4,921,095	1,678,421
Net assets, beginning of year	26,775,138	25,096,717
Net assets, end of year	\$ 31,696,233	26,775,138

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 4,921,095	1,678,421
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	907,702	864,403
Loss on disposal of assets	—	3,625
Realized and unrealized net losses (gains) on investments	612,368	(1,202,076)
Unrealized net losses on changes in fair value of interest-rate swaps	453,034	27,951
Contributions of land, equipment, and improvements	(481,046)	(413,973)
Contributions restricted for long-term investment – capital campaign	(3,594,720)	(4,225,350)
Amortization of lease obligation	—	(735,269)
Changes in operating assets and liabilities:		
Government grants receivable, net	476,628	(1,347,515)
Contributions receivable, net	(1,676,699)	8,067,499
Other assets	(64,377)	52,618
Accounts payable, accrued expenses, and other deferrals	68,570	(34,409)
Net cash provided by operating activities	1,622,555	2,735,925
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	10,994,015	695,146
Purchases of investments	(10,229,258)	(703,421)
Renovations of building	(995,579)	(3,607,028)
Purchases of equipment	(769,352)	(1,028,994)
Net cash used in investing activities	(1,000,174)	(4,644,297)
Cash flows from financing activities:		
Proceeds from line of credit	—	2,000,000
Repayments under line of credit and note payable	(3,500,000)	(3,750,000)
Proceeds from revolving bridge loan	—	1,986,731
Repayments under revolving bridge loan	(998,966)	(400,000)
Bond issuance costs paid	—	(10,000)
Contributions restricted for long-term investment – capital campaign	3,594,720	4,225,350
Net cash (used in) provided by financing activities	(904,246)	4,052,081
Net (decrease) increase in cash and equivalents	(281,865)	2,143,709
Cash and equivalents, beginning of year	4,026,387	1,882,678
Cash and equivalents, end of year	\$ 3,744,522	4,026,387
Supplemental data:		
Cash paid for interest	\$ 758,827	837,811
Noncash-investing activity – accrued plant, property, and equipment	44,809	284,072
Noncash-investing activity – contributions of land, equipment, and securities	1,557,977	1,176,833

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2008

	<u>Program services</u>	<u>Organizational support</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses:				
Staff salaries	\$ 14,149,599	1,863,586	2,182,372	18,195,557
Corp member salaries	11,278,920	—	—	11,278,920
Payroll taxes and employee benefits	4,932,346	372,724	323,829	5,628,899
	<u>30,360,865</u>	<u>2,236,310</u>	<u>2,506,201</u>	<u>35,103,376</u>
Other expenses:				
Contract services	1,002,865	190,179	566,864	1,759,908
Professional services	10,239	412,985	2,502	425,726
Transportation, travel, and lodging	2,895,136	64,405	135,911	3,095,452
Retreats and conferences	325,493	10,026	8,854	344,373
Materials and supplies	4,028,463	90,837	742,038	4,861,338
Postage and shipping	118,884	30,634	35,734	185,252
Telecommunications	1,668,893	20,727	127,233	1,816,853
Printing, publications, dues, and fees	390,226	287,476	212,516	890,218
Occupancy and insurance	2,391,679	390,626	14,903	2,797,208
Equipment/space rental and repair	1,053,927	108,436	592,862	1,755,225
Interest	297,864	393,503	41,248	732,615
Depreciation and amortization	423,272	421,454	62,976	907,702
	<u>14,606,941</u>	<u>2,421,288</u>	<u>2,543,641</u>	<u>19,571,870</u>
Total expenses	\$ <u><u>44,967,806</u></u>	<u><u>4,657,598</u></u>	<u><u>5,049,842</u></u>	<u><u>54,675,246</u></u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2007

	Program services	Organizational support	Fundraising	Total
Personnel expenses:				
Staff salaries	\$ 12,836,978	1,813,567	2,301,787	16,952,332
Corp member salaries	9,251,715	—	—	9,251,715
Payroll taxes and employee benefits	4,579,443	317,727	380,292	5,277,462
	26,668,136	2,131,294	2,682,079	31,481,509
Other expenses:				
Contract services	1,110,910	231,460	303,177	1,645,547
Professional services	4,553	449,521	—	454,074
Transportation, travel, and lodging	2,052,916	33,529	40,052	2,126,497
Retreats and conferences	304,948	3,914	11,080	319,942
Materials and supplies	2,738,705	77,110	813,327	3,629,142
Postage and shipping	137,252	8,598	32,765	178,615
Telecommunications	1,021,911	19,553	67,976	1,109,440
Printing, publications, dues, and fees	287,713	238,247	156,824	682,784
Occupancy and insurance	2,238,873	583,709	—	2,822,582
Equipment/space rental and repair	1,229,685	86,619	470,531	1,786,835
Interest	256,735	525,326	78,497	860,558
Depreciation and amortization	404,124	400,443	59,836	864,403
	11,788,325	2,658,029	2,034,065	16,480,419
Total expenses	\$ 38,456,461	4,789,323	4,716,144	47,961,928

See accompanying notes to financial statements.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2008 and 2007

(1) Organization Background and History

City Year, Inc. (the Organization or City Year) is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (IRC), and is generally exempt from income taxes under IRC Section 501(a). An “action tank” for national service, City Year seeks to demonstrate, improve, and promote the concept of national service as a means of building a stronger democracy. City Year unites a diverse group of young people, ages 17-24, for a year of full-time, rigorous community service, leadership development, and civic engagement. City Year works to fulfill this mission through five primary activities: (1) operating a national youth service corps; (2) building the infrastructure of national service by setting up new operating sites across the country; (3) providing technical assistance to individuals and organizations in national and community service; (4) planning and running large civic events to engage citizens and organizations in activities that promote service, inclusivity, leadership, and citizenship; and (5) constantly developing new ways to engage people and resources to promote the concept of voluntary national service. City Year’s vision is that one day, the most commonly asked question of an 18-year-old will be: “Where are you going to do your service year?”

City Year was founded in Boston, Massachusetts in 1988 and now operates in eighteen locations across the United States, including Columbia, South Carolina, Rhode Island, Chicago, Illinois, Columbus, Ohio, San Jose, California, San Antonio, Texas, Cleveland, Ohio, Philadelphia, Pennsylvania, Seattle, Washington, Detroit, Michigan, Washington, DC, New Hampshire, New York City, Little Rock, Arkansas, Louisiana, Los Angeles, California, and Miami, Florida. In 2005, City Year established its first international program in Johannesburg, South Africa, creating a separate legal entity, City Year South Africa Citizen Service Organization, that is incorporated under South African Charitable Organization laws.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

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

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

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Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, including time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Expirations of temporary restrictions occur when donor-imposed stipulated purposes have been accomplished and/or the stipulated time period has elapsed. If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is incurred for a purpose that is directly attributable to another specific external source of revenue.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions and earnings subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Promises to give that are scheduled to be received after the consolidated statement of financial position date are shown as increases in unrestricted net assets or temporarily restricted net assets. Temporarily restricted net assets are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are shown as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks and duration involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any.

Dividends, interest, and net unrealized gains (losses) on long-term investments are reported as follows:

- increases in permanently restricted net assets if the terms of the contributions or relevant State law required these to be added to principal;
- increases (decreases) in temporarily restricted net assets if the terms of the contributions impose restrictions on the use of the income and gains; or
- increases (decreases) in unrestricted net assets in all other cases.

(b) *Operating and Nonoperating Activities*

The statements of activities report all changes in net assets, including changes in unrestricted net assets from operating and nonoperating transactions. Operating revenues consist of those items attributable to City Year's ongoing service efforts. Unrestricted contributions are reported as operating revenues. City Year's spending rule allows for the expenditure of 4.5% of the average investment balance of certain qualifying investments for the trailing eight quarters, starting with March 31st of the prior fiscal year to fund operations. Certain amounts included in operations as

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Notes to Financial Statements

June 30, 2008 and 2007

defined for purposes of the statements of activities differ from amounts reported as cash flows from operating activities.

Investment return in excess of amounts authorized for operations and unrealized net gains or losses from changes in fair value of interest rate swaps are reported as nonoperating items in the statements of activities.

(c) Cash and Equivalents

For purposes of the statements of cash flows, cash and cash equivalents consist of cash, money market mutual funds and short-term investments with original maturity dates of three months or less at date of acquisition. All are stated at cost, which approximates market.

(d) Investments

Investments are reported at fair value. The fair value of investments containing publicly traded securities is based on market quotes from the principal exchanges in which the securities are traded. Shares in mutual funds are based on share values reported by the fund.

(e) Property and Equipment

Property and equipment are stated at cost, except for donated assets, which are recorded at fair value at the date of gift. Ordinary repairs and maintenance are expensed as incurred. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives:

Building	40 years
Furniture and fixtures	3-7 years
Equipment and software	3-10 years
Leasehold improvements	Shorter of life of lease or improvements

(f) Contributed Goods and Professional Services

Contributed goods and professional services are reflected as contributions in the accompanying statements of activities at their estimated fair value at the date received or provided.

(g) Program Services

Program services consist of expenses related to operations, education, training, corps development, new site development, special events, external affairs, and organizational development.

(h) Derivative Instruments

City Year utilizes interest-rate swap agreements to effectively convert a portion of its long-term variable-rate debt to fixed rates and not for speculative purposes. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, is applied to such instruments. SFAS No. 133 requires the swaps' fair value and changes therein to be recognized in the financial statements. Differences between the fixed and variable rates in effect at each interest due date are settled net under each swap, increasing or decreasing interest expense. The net termination value (cost) of each swap is measured at each reporting date and presented as an asset (liability) using

CITY YEAR, INC.

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techniques such as discounted cash flow analysis and option pricing models that incorporate assumptions about future market interest or exchange rates, as appropriate.

(i) Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires City Year to disclose fair value information about all financial instruments, whether or not recognized in the statements of financial position, for which it is practicable to estimate fair value. The Organization's financial instruments not carried at fair value are carried at net realizable value, which approximates fair value, in the statements of financial position. Such financial instruments consist of cash and equivalents, receivables from grantors and donors, and accounts payable and accrued expenses. Because the Organization's bonds payable are at variable rates, their carrying values approximate their fair values.

(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

(k) Bond Issuance Costs

Bond issuance costs are deferred as other assets and are amortized over the life of the related bonds.

(l) Allocations

The Organization reports expenses by their functional classification. Accordingly, depreciation, interest, and operations and maintenance costs have been allocated to functional classifications based upon relative expenditure levels.

(m) Tax Status

City Year is a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal income taxes pursuant to Section 501(a) of the Code. In June 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement for tax positions taken or expected to be taken in a tax return. FIN 48 was effective for City Year on July 1, 2007. The adoption of FIN 48 did not have a material impact on the Organization's financial statements.

(n) Reclassifications

Certain 2007 information has been reclassified to conform to the 2008 presentation.

CITY YEAR, INC.

Notes to Financial Statements

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(3) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	<u>2008</u>	<u>2007</u>
Time restrictions	\$ 6,217,413	3,423,390
Purpose restrictions	6,897,792	6,942,482
Accumulated realized and unrealized net gains on permanently restricted assets	<u>705,543</u>	<u>1,645,049</u>
	<u>\$ 13,820,748</u>	<u>12,010,921</u>

(4) Permanently Restricted Net Assets

Permanently restricted net assets at June 30 consisted of the following endowment gifts whose income is restricted for the following purpose:

	<u>2008</u>	<u>2007</u>
Program sponsorships	\$ <u>4,531,653</u>	<u>4,531,653</u>

Permanently restricted net assets include individual endowment fund balances stated at original principal balance.

(5) Net Assets Released from Restrictions

Net assets released from restrictions consisted of the following for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Expiration of time restrictions	\$ 5,640,696	2,337,655
Satisfaction of purpose restrictions	<u>1,536,190</u>	<u>5,460,126</u>
	<u>\$ 7,176,886</u>	<u>7,797,781</u>

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(6) In-Kind Contributions

Contributed goods and services included in program and support services during the years ended June 30 were for the following purposes:

<u>Nature</u>	<u>2008</u>	<u>2007</u>
Program services:		
Uniforms	\$ 1,726,322	1,175,432
Advertising (recruitment)	—	3,500
Transportation and travel	467,008	392,598
Rent	425,546	407,778
Equipment rental and maintenance	1,315,346	757,431
Workshops and conferences	—	378
Materials and supplies	106,967	119,524
Food	139,691	158,945
Printing and copying	10,070	15,734
Total program services	<u>4,190,950</u>	<u>3,031,320</u>
Support services:		
Professional services	340,440	401,177
Rent	106,386	101,944
Total support services	<u>446,826</u>	<u>503,121</u>
Depreciation and amortization	<u>91,598</u>	<u>52,355</u>
Total	<u>\$ 4,729,374</u>	<u>3,586,796</u>

Contributions of equipment, improvements, and land in 2008 and 2007 were \$481,046 and \$413,973, respectively.

(7) Investments

Investments consisted of the following at June 30:

	<u>2008</u>	<u>2007</u>
Equity mutual funds	\$ 6,592,686	6,900,937
Equities	—	77,628
Fixed-income mutual funds	777,906	1,070,164
Money markets and other cash equivalents	87	214,075
Land held for resale	—	485,000
Total investments	<u>\$ 7,370,679</u>	<u>8,747,804</u>

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Under the Organization's spending policy, up to 4.5% of the total investments' average fair value as of March 31st of the previous fiscal year for the trailing eight quarters may be authorized by the City Year Endowment Investment Committee for spending as operating revenue. The Committee recommended, and the Board of Trustees approved, spending \$324,081 in Fiscal 2008 and \$307,852 in Fiscal 2007. These amounts are classified as unrestricted operating revenue in the statements of activities.

The following are the components of the return on investments for the years ended June 30:

	2008	2007
Dividends and interest	\$ 176,928	146,410
Realized and unrealized net (losses) gains on investments	(792,353)	1,202,076
Total return on investments	\$ (615,425)	1,348,486

Following is a reconciliation of total investment return to amounts reported in the statements of activities for the years ended June 30:

	2008	2007
Investment return utilized for operations	\$ 324,081	307,852
Investment return in excess of amounts authorized for operations	—	230,982
Unspent realized and unrealized net (losses) gains on endowments	(939,506)	809,652
Total return on investments	\$ (615,425)	1,348,486

City Year has interpreted relevant state law as generally permitting the spending of gains on endowment funds over a stipulated period of time. State law allows the Board to appropriate a portion of earnings on endowment as is prudent considering City Year's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Currently, City Year records unrealized net gains on permanently restricted net assets as temporarily restricted until appropriated by City Year.

(8) Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2008	2007
Capital campaign	\$ 460,000	1,085,000
Unrestricted	1,643,045	2,303,208
Restricted to future periods	10,626,100	7,514,305
	\$ 12,729,145	10,902,513

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Contributions receivable were scheduled to be received as followed as of June 30:

	2008	2007
Due within one year	\$ 6,349,145	7,888,813
Due within two to five years	6,380,000	3,013,700
	12,729,145	10,902,513
Less present value discount (ranging from 3.00% to 5.38%) and other allowances	(772,648)	(622,715)
	\$ 11,956,497	10,279,798

(9) Property and Equipment

Property and equipment consisted of the following at June 30:

	2008	2007
Land	\$ 4,884,000	4,884,000
Building	11,489,105	10,675,284
Furniture and fixtures	1,001,142	915,244
Equipment and software	4,298,784	2,840,201
Leasehold improvements	962,447	1,342,046
	22,635,478	20,656,775
Less accumulated depreciation and amortization	(4,213,845)	(3,342,792)
	\$ 18,421,633	17,313,983

On June 21, 2006, City Year purchased property in Boston (note 10) at a total capitalized cost of \$12,065,718. This capitalized value included the purchase price of \$11,000,000, \$330,449 of direct acquisition costs, and the assumption of a liability, which has been estimated at \$735,269 and included in deferred revenue, to allow the current occupants to remain in the building rent-free through December 31, 2006. During the first six months of Fiscal 2007, that amount was amortized and reflected in other income in the 2007 statement of activities. Renovation of the interior space was substantially completed by June 30, 2007 at a cost of approximately \$5,100,000.

(10) Headquarters for Idealism

On June 21, 2006, City Year purchased property located at 287 Columbus Avenue in Boston to develop a “Headquarters for Idealism” that serves as the permanent home of its Boston service corps, national headquarters, and emerging global initiatives. In addition to serving as the home to City Year’s growing network of sites, the facility serves as a community resource and incubator for social entrepreneurs, as it is made available to community organizations across the city.

City Year launched a \$15 million capital campaign, the Campaign for the City Year Headquarters for Idealism, to partially fund the acquisition and renovation costs and to provide for capital reserves. The total

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acquisition and renovation costs are approximately \$18,000,000. The acquisition was partially financed with proceeds from a \$9,000,000 bond issuance (note 14). City Year supplemented the bond proceeds by utilizing \$7,820,070 paid to date on a total of \$8,280,070 in contributions raised as of June 30, 2008, specifically for the purchase and renovation of this property. As the purpose of the restricted funds has been met, this amount is recorded as unrestricted and included in unrestricted contributions and grants revenue. As of June 30, 2008 additional gifts of approximately \$4,800,000 have been committed and will be recorded when the revenue recognition criteria are satisfied.

(11) Federal Grants

City Year received grant awards from the Corporation for National and Community Service (CNCS) totaling \$16,636,790 and \$14,242,533 for fiscal year 2008 and 2007, respectively. The funds were awarded through the AmeriCorps program administered by CNCS. Funds expended in fiscal year 2008 and 2007 totaled \$14,508,080 and \$12,808,586, respectively.

The Organization's federal grant programs are subject to financial and compliance audits in accordance with Office of Management and Budget Circular A-133. In addition, various federal, state, and private funding agencies reserve the right to perform separate program audits.

(12) Leases

Rental expense for office space was \$1,744,619 and \$1,931,165 for the years ended June 30, 2008 and 2007, respectively, exclusive of certain in-kind arrangements. Lease arrangements with an original term of more than one year expire on various dates through 2017.

Future minimum lease payments under operating leases as of June 30, 2008 are as follows:

	<u>Amount due</u>
Fiscal years ending June 30:	
2009	\$ 1,731,186
2010	1,288,545
2011	1,240,652
2012	1,259,691
Future payments	<u>2,117,507</u>
	<u>\$ 7,637,581</u>

The Organization is also liable for reimbursing certain real estate taxes and operating costs under certain of the office lease terms.

(13) Credit Facility

The Organization has a credit facility with Bank of America, N.A. (BoA) consisting of a line of credit and a revolving bridge loan. The credit facility is secured by all assets of the Organization, except for the portion of assets equal to the amount of permanently restricted net assets.

CITY YEAR, INC.

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(a) Line of Credit

The Organization has a committed line of credit (the Line) under the facility of \$6,000,000. City Year has the option of borrowing at BoA's prime lending rate plus a lender's margin or at the LIBOR rate plus a lender's margin. The lender's margin is adjusted based upon specified compliance levels as determined under City Year's debt service coverage ratio as defined in the agreement. The lender's margin may be adjusted to a change in the compliance level as of the rate adjustment date, which is defined as the 70th day after the close of each fiscal quarter of the borrower with respect to the first three quarters of each fiscal year and the 160th day after the close of each fiscal year of the borrower.

The Line contains certain financial covenants, including a ratio requirement, an annual clean-up period, and limitations on the amount of the Organization's annual capital expenditures. The Organization was in compliance with such covenants at June 30, 2008 and 2007, with the exception of the clean-up period requirement for Fiscal 2007. The clean-up period requirement states that the balance outstanding on the Line must be equal to zero for at least 30 consecutive days within each fiscal year. BoA waived the clean-up period requirement for fiscal year 2007.

On April 2, 2007, City Year entered into an Eleventh Loan Modification Agreement with Bank of America with respect to the Line. This agreement provided the waiver for Fiscal 2007 of the 30-day clean-up provision, adjusted other various provision so as to be consistent with the Reimbursement Agreement (note 14), and extended the expiration date of the line to March 31, 2008. On March 31, 2008, City Year entered into a Twelfth Loan Modification Agreement that extended the expiration date of the line to March 31, 2009.

Borrowings outstanding under the Line amounted to \$0 at June 30, 2008 and \$3,500,000 at June 30, 2007.

(b) Revolving Bridge Loan

On June 21, 2006, City Year entered into a revolving bridge loan (the Revolver) with BoA, the purpose of which is to bridge the timing of the Headquarters for Idealism campaign pledges and costs incurred to complete the acquisition and renovation of City Year's headquarters building. The amount of the Revolver is a maximum of \$5,000,000, with step-down provisions over five years. The principal is due in full on June 21, 2011. For each loan taken under this agreement, City Year has the option of borrowing at BoA's prime lending rate plus a lender's margin or at the LIBOR rate plus a lender's margin. The lender's margin is adjusted as described above for the line of credit.

The Revolver has financial covenants consistent with the Line financial covenants. The Organization was in compliance with such covenants at June 30, 2008 and 2007. Borrowings outstanding under the Revolver amounted to \$2,000,000 at June 30, 2008 and \$2,998,966 at June 30, 2007.

Interest expense under the credit facility was \$354,240 and \$533,164 for the years ended June 30, 2008 and 2007, respectively.

CITY YEAR, INC.

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(14) Long-Term Debt

(a) Bonds Payable

City Year entered into an indenture agreement with Massachusetts Development Finance Agency, dated June 1, 2006, to issue Variable Rate Demand Revenue Bonds, City Year Issue, Series 2006, in the aggregate principal amount of \$9,000,000. The proceeds of the bonds were loaned to City Year pursuant to a Loan and Trust Agreement to finance the acquisition and development cost of City Year's Headquarters for Idealism (note 10) and to pay certain costs of issuance totaling \$258,036, which are included in other assets and are being amortized over the life of the bonds.

The bonds mature through July 1, 2036 and bear interest at a Weekly Interest Rate (maximum of 12%) as determined by the remarketing agent. The interest rate at June 30, 2008 was 1.50%. The debt repayment schedule provides for principal payments beginning July 1, 2008 and continuing over the remainder of the thirty-year term. The costs associated with this bond issue will be amortized over thirty years.

Payment of the principal and interest on the bonds is secured by an irrevocable, direct-pay letter-of-credit reimbursement agreement between City Year and BoA, as described below. A remarketing agreement among the Issuer, the Borrower, and Bank of America Securities, LLC, the remarketing agent, provides for the remarketing of the bonds.

Interest expense was \$384,342 and \$384,295 for the years ended June 30, 2008 and 2007, respectively.

Aggregate scheduled annual principal repayments for the credit facility and bonds payable as of June 30, 2008 were as follows:

	<u>Amount due</u>
Fiscal years ending June 30:	
2009	\$ 180,000
2010	1,195,000
2011	1,200,000
2012	210,000
2013	215,000
Thereafter	<u>8,000,000</u>
Total	<u>\$ 11,000,000</u>

(b) Letter of Credit

On June 21, 2006 City Year obtained a \$9,133,151 irrevocable, direct-pay letter of credit (the Letter) with BoA primarily to guarantee the repayment of the bond principal. The beneficiary is J.P. Morgan Trust Company.

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The Letter is collateralized by land and improvements in Boston and matures on June 21, 2011. The Letter carries an annual fee equal to ninety (90) basis points on the outstanding balance of the letter of credit (principal plus 45 days interest at 12%), payable quarterly in advance. The outstanding balance available under the Letter is equal to the outstanding bonds payable balance at June 30, 2008 and 2007.

In addition to and in conjunction with the letter of credit, City Year entered into a Reimbursement Agreement with BoA, and other related agreements, dated June 1, 2006. This agreement contains certain financial covenants, including a ratio requirement, minimum liquidity requirement, and limitations on the amount of annual capital expenditures. The Organization was in compliance with such covenants at June 30, 2008 and 2007.

(c) Interest Rate Swaps

On June 21, 2006, City Year entered into two interest rate swap agreements with BoA to mitigate its exposure to variability in interest payments on the bonds payable. The agreements have an effective date of July 1, 2006. The terms of the swap agreements were as follows at June 30, 2008:

Counterparty	Issue date	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Fair value at June 30		Incremental interest	
						asset (liability) 2008	2007	savings (expense) 2008	2007
Bank of America, N.A.	06/21/06	07/01/06	07/01/26	\$ 2,250,000	4.210%	\$ (205,433)	(62,139)	(30,257)	(10,003)
Bank of America, N.A.	06/21/06	07/01/06	07/01/16	<u>6,750,000</u>	4.160	<u>(454,933)</u>	<u>(145,193)</u>	<u>(87,395)</u>	<u>(26,916)</u>
				<u>\$ 9,000,000</u>		<u>\$ (660,366)</u>	<u>(207,332)</u>	<u>(117,652)</u>	<u>(36,919)</u>

While the swaps' fair values were zero at inception of the agreements on the issue date of June 21, 2006, interest rate volatility, remaining outstanding principal, and time to maturity will affect each swap's fair value at subsequent reporting dates. The fair value of the liability as of June 30, 2008 represents the amounts City Year would have had to pay BoA to terminate the swaps as of that date. To the extent City Year holds a swap through its expiration date, the swap's fair value will reach zero. Interest payable or receivable under the swaps began to accrue as of the effective date of July 1, 2006. The liability under the swaps is included in accounts payable and accrued expenses on the statements of financial position.

(15) Related Party

In 2005, City Year established its first international program in Johannesburg, South Africa, creating a separate legal entity, City Year South Africa Citizen Service Organization (City Year South Africa), which is incorporated under South African Charitable Organization laws. City Year is one of seven members of City Year South Africa. One other individual member of City Year South Africa is also a Trustee of City Year. None of the assets of City Year South Africa may be distributed to its members, and the liability of members for payment of debts and liabilities is limited to ten Rand, or approximately \$1.50.

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City Year previously supported the program by providing startup and operating subsidies and transferring staff from the United States to Johannesburg. Through June 30, 2006, the financial results of City Year South Africa were consolidated as part of the financial statements of City Year, Inc. After two years of operations, City Year discontinued operating subsidies, re-assigned the staff to other positions in the United States, and determined that it will have no obligation to support or be a beneficiary of the net assets of City Year South Africa. As such, in accordance with Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, the financial records are no longer consolidated here within, as the criteria for such consolidation is no longer met. The effect of this deconsolidation is a loss of \$1,010,988 for Fiscal 2007. This loss is shown as a decrease in unrestricted net assets from nonoperating transactions of \$154,724 and a decrease in temporarily restricted net assets of \$856,264. This is a nonrecurring transaction.