KPMG

CITY YEAR, INC.

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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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, 2009 and 2008, 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, 2009 and 2008, 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 7, 2010

CITY YEAR, INC.

Statements of Financial Position

June 30, 2009 and 2008

Assets		2009	2008
Cash and equivalents	$	2,927,933	3,744,533
Government grants receivable, net		8,107,704	5,138,248
Contributions receivable, net (note 9)		11,268,930	11,956,497
Other assets		977,273	649,628
Investments, at fair value (note 7)		5,696,640	7,370,668
Property and equipment, net (notes 10 and 11)		18,273,625	18,421,633
Total assets	$	47,252,105	47,281,207
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	2,295,168	2,344,207
Accrued payroll and related expenses		1,401,597	1,580,401
Interest rate swaps (note 15)		1,091,716	660,366
Revolving bridge loan (note 14)		—	2,000,000
Bonds payable (note 15)		8,820,000	9,000,000
Total liabilities		13,608,481	15,584,974
Commitments and contingencies (notes 12, 13, and 15)			
Net assets:			
Unrestricted		15,691,518	13,343,832
Temporarily restricted (note 3)		13,270,453	13,820,748
Permanently restricted (note 4)		4,681,653	4,531,653
Total net assets		33,643,624	31,696,233
Total liabilities and net assets	$	47,252,105	47,281,207

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Activities

Years ended June 30, 2009 and 2008

		2009	2008
Changes in unrestricted net assets:			
Operations:			
Revenues and other support:			
Contributions and private grants (note 6)	$	30,697,708	28,769,131
Federal grants – Corporation for National and Community Service (note 12)		17,962,777	14,508,080
Other government grants		7,578,393	5,237,277
Investment return utilized for operations (note 7)		336,910	324,081
Other income		116,064	103,623
Net assets released from restrictions (note 5)		6,315,250	7,176,886
Total operating revenues and other support		63,007,102	56,119,078
Expenses (note 6):			
Program services		49,241,630	44,967,806
Support services:			
Organizational support		5,155,120	4,657,598
Fundraising		5,724,952	5,049,842
Total support services		10,880,072	9,707,440
Total expenses		60,121,702	54,675,246
Increase in unrestricted net assets from operations		2,885,400	1,443,832
Nonoperating transactions:			
Contributions and private grants – capital campaign (note 11)		2,027,967	2,120,470
Investment return in excess of amounts utilized for operations (note 7)		(1,098,524)	—
Unrealized net losses on changes in fair value of interest-rate swaps (note 15)		(431,350)	(453,034)
Reclassification of net assets (note 3)		(1,035,807)	—
(Decrease) increase in unrestricted net assets from nonoperating transactions		(537,714)	1,667,436
Increase in unrestricted net assets		2,347,686	3,111,268
Changes in temporarily restricted net assets:			
Contributions		5,849,652	9,926,219
Unspent realized and unrealized net losses on endowments (note 7)		(1,120,504)	(939,506)
Reclassification of net assets (note 3)		1,035,807	—
Net assets released from restrictions (note 5)		(6,315,250)	(7,176,886)
(Decrease) increase in temporarily restricted net assets		(550,295)	1,809,827
Changes in permanently restricted net assets:			
Contributions		150,000	—
Increase in permanently restricted net assets		150,000	—
Increase in net assets		1,947,391	4,921,095
Net assets, beginning of year		31,696,233	26,775,138
Net assets, end of year	$	33,643,624	31,696,233

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Increase in net assets	$	1,947,391	4,921,095
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		1,044,039	907,702
Loss on disposal of assets		32,120	—
Realized and unrealized net losses on investments		2,014,814	792,353
Unrealized net losses on changes in fair value of interest-rate swaps		431,350	453,034
Contributions of land, equipment, and improvements		(235,955)	(481,046)
Contributions restricted for long-term investment – capital campaign		(1,479,930)	(3,594,720)
Changes in operating assets and liabilities:			
Government grants receivable, net		(2,969,456)	476,628
Contributions receivable, net		687,567	(1,676,699)
Other assets		(336,246)	(64,377)
Accounts payable, accrued expenses, and accrued payroll and related expenses		(244,370)	68,570
Net cash provided by operating activities		891,324	1,802,540
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		1,381,979	10,814,030
Purchases of investments		(1,722,765)	(10,229,258)
Renovations of building		(300,935)	(995,579)
Purchases of equipment		(366,133)	(769,352)
Net cash used in investing activities		(1,007,854)	(1,180,159)
Cash flows from financing activities:			
Proceeds from line of credit		1,500,000	—
Repayments under line of credit and note payable		(1,500,000)	(3,500,000)
Repayments of bond payable		(180,000)	—
Repayments under revolving bridge loan		(2,000,000)	(998,966)
Contributions restricted for long-term investment – capital campaign		1,479,930	3,594,720
Net cash used in financing activities		(700,070)	(904,246)
Net decrease in cash and equivalents		(816,600)	(281,865)
Cash and equivalents, beginning of year		3,744,533	4,026,398
Cash and equivalents, end of year	$	2,927,933	3,744,533
Supplemental data:			
Cash paid for interest	$	498,665	758,827
Noncash-investing activity – accrued plant, property, and equipment		16,527	(239,263)
Noncash-investing activity – contributions of land, equipment, and securities		374,752	1,557,977

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2009

		Program services	Organizational support	Fundraising	Total
Personnel expenses:					
Staff salaries	$	15,387,328	2,078,412	3,230,420	20,696,160
Corp member stipends		13,661,995	—	—	13,661,995
Payroll taxes and employee benefits		5,458,772	437,225	433,827	6,329,824
		34,508,095	2,515,637	3,664,247	40,687,979
Other expenses:					
Contract services		970,634	209,991	381,469	1,562,094
Professional services		—	515,254	—	515,254
Transportation, travel, and lodging		2,572,295	107,286	169,423	2,849,004
Retreats and conferences		320,998	17,107	22,533	360,638
Materials and supplies		4,064,784	75,158	532,827	4,672,769
Postage and shipping		120,296	30,750	45,152	196,198
Telecommunications		1,833,848	44,252	144,050	2,022,150
Printing, publications, dues, and fees		411,368	359,891	174,379	945,638
Occupancy and insurance		2,778,461	389,144	217	3,167,822
Equipment/space rental and repair		1,008,807	112,038	485,574	1,606,419
Interest		208,656	250,039	33,003	491,698
Depreciation and amortization		443,388	528,573	72,078	1,044,039
		14,733,535	2,639,483	2,060,705	19,433,723
Total expenses	$	49,241,630	5,155,120	5,724,952	60,121,702

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2008

	Program services	Organizational support	Fundraising	Total
Personnel expenses:				
Staff salaries	$ 14,149,599	1,863,586	2,182,372	18,195,557
Corp member stipends	11,278,920	—	—	11,278,920
Payroll taxes and employee benefits	4,932,346	372,724	323,829	5,628,899
	30,360,865	2,236,310	2,506,201	35,103,376
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
	14,606,941	2,421,288	2,543,641	19,571,870
Total expenses	$ 44,967,806	4,657,598	5,049,842	54,675,246

See accompanying notes to financial statements.

(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). 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, which is incorporated under South African Charitable Organization laws.

City Year's vision is that one day the most commonly asked question of a young person will be, "Where are you going to do your service year?" City Year supports this vision in three primary ways:

(a) The City Year youth service corps annually unites 1,500 young people age 17-24 for a year of full-time community service and leadership development at locations across the country. As tutors, mentors and role models, they help students and schools succeed, and embody the power of national service to address pressing domestic issues.

(b) City Year seeks to inspire citizen service with high-impact community events that engage people and institutions through major physical service projects – such as renovating schools, refurbishing playgrounds and painting over graffiti with murals.

(c) City Year promotes citizen service and builds awareness of and support for increasing service opportunities by engaging policy makes and convening service organizations.

(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.

(Continued)

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 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 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, as well as any contributions received for nonoperating purposes, are reported as nonoperating items in the statements of activities.

(c) Cash and Equivalents

For purposes of the statements of cash flows, cash and 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 fair value.

(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 registered 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 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 debt is at variable rates, its carrying value approximates its fair value.

(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. The current economic environment increases the uncertainty of 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. The Organization reports expenses by their functional classification. Expenses related directly to a program are charged to that program while indirect expenses are allocated principally on time and effort related to that function.

(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 2008 information has been reclassified to conform to the 2009 presentation.

(o) Recently Adopted Accounting Standards

The Organization adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS 157), effective July 1, 2008. SFAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. Under SFAS No. 157, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

Effective July 1, 2008, the Organization adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires comprehensive disclosures regarding both donor-restricted endowment funds and board-designated (quasi) endowment funds. As of June, 2009, the Commonwealth of Massachusetts enacted the provisions of UPMIFA.

In May 2009, FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes principles and requirements for subsequent events. This statement applies to the accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. SFAS 165 was effective for periods ending after June 15, 2009. In accordance with the standard, management has evaluated events subsequent to June 30, 2009 and through January 7, 2010, the date on which the financial statements were issued. The adoption of the statement did not have a material effect on the Organization's financial position, results of operations or cash flows.

(3) Temporarily Restricted Net Assets

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

	2009	2008
Time restrictions	$ 11,709,507	11,734,295
Purpose restrictions	1,560,946	1,380,910
Accumulated realized and unrealized net gains on endowment funds	—	705,543
	$ 13,270,453	13,820,748

In 2009, in conjunction with the adoption of FSP 117-1, the Organization reviewed the classification of its net assets. Based on its review, the Organization identified $1,035,807 of funds previously accounted for as unrestricted net assets that were determined to be temporarily restricted net assets. The Organization accordingly has reclassified the funds from unrestricted net assets to temporarily restricted net assets.

(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:

		2009	2008
Program sponsorships	$	4,681,653	4,531,653

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:

		2009	2008
Expiration of time restrictions	$	5,722,750	5,640,696
Satisfaction of purpose restrictions		592,500	1,536,190
	$	6,315,250	7,176,886

(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:

Nature		2009	2008
Program services:			
Uniforms	$	1,998,552	1,726,322
Transportation and travel		571,808	467,008
Rent		236,695	425,546
Equipment rental and maintenance		1,281,692	1,315,346
Materials and supplies		97,413	106,967
Food		72,677	139,691
Printing and copying		—	10,070
Total program services		4,258,837	4,190,950
Support services:			
Professional services		404,195	340,440
Rent		59,174	106,386
Total support services		463,369	446,826
Depreciation and amortization		24,107	91,598
Total	$	4,746,313	4,729,374

(Continued)

Contributions of land, equipment, and improvements in 2009 and 2008 were $235,955 and $481,046, respectively.

(7) Investments

FASB Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 – Valuations based on quoted prices in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.
- Level 3 – Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table summarizes the classification of the Organization's investments in the SFAS 157 fair value hierarchy as of June 30, 2009, with comparative totals as of June 30, 2008:

		2009		2008
		Level 1	**Total**	**Total**
Equity mutual funds	$	5,057,123	5,057,123	6,592,686
Fixed-income mutual funds		489,503	489,503	777,906
Money markets and other cash equivalents		150,014	150,014	76
Total investments	$	5,696,640	5,696,640	7,370,668

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

		2009	2008
Dividends and interest	$	132,696	176,928
Realized and unrealized net losses on investments		(2,014,814)	(792,353)
Total return on investments	$	(1,882,118)	(615,425)

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

		2009	2008
Investment return utilized for operations	$	336,910	324,081
Investment return in excess of amounts authorized for operations – nonoperating		(1,098,524)	—
Investment return – temporarily restricted		(1,120,504)	(939,506)
Total return on investments	$	(1,882,118)	(615,425)

(8) Endowment

As described in note 2(o), the Organization adopted the provisions of FASB Staff Position No. 117-1 in 2009.

City Year's endowment consists of approximately 15 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Endowment net assets consisted of the following at June 30, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (635,051)	—	4,681,653	4,046,602
Board-designated endowment funds	—	1,650,038	—	1,650,038
Total	$ (635,051)	1,650,038	4,681,653	5,696,640

Endowment net assets consisted of the following at June 30, 2008:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	1,015,875	4,531,653	5,547,528
Board-designated endowment funds	—	1,823,140	—	1,823,140
Total	$ —	2,839,015	4,531,653	7,370,668

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$	—	2,839,015	4,531,653	7,370,668
Investment return:					
Investment income		—	132,696	—	132,696
Net depreciation		(635,051)	(1,379,763)	—	(2,014,814)
Total investment return		(635,051)	(1,247,067)	—	(1,882,118)
Contributions		—	395,000	150,000	545,000
Endowment income appropriated		—	(336,910)	—	(336,910)
Endowment net assets, June 30, 2009	$	(635,051)	1,650,038	4,681,653	5,696,640

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$	—	3,653,521	4,531,653	8,185,174
Investment return:					
Investment income		—	176,928	—	176,928
Net appreciation		—	(792,353)	—	(792,353)
Total investment return		—	(615,425)	—	(615,425)
Contributions		—	125,000	—	125,000
Endowment income appropriated		—	(324,081)	—	(324,081)
Endowment net assets, June 30, 2008	$	—	2,839,015	4,531,653	7,370,668

(Continued)

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $635,051 as of June 30, 2009. These deficiencies resulted from wide-spread unfavorable market conditions. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of June 30, 2008.

(c) Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of relative benchmarks while assuming a moderate level of investment risk. The Organization expects its endowment funds to provide, over the long term (rolling three- to five year periods) an average annual total return (net of fees), equal to the spending rate plus inflation, defined as the Consumer Price Index. Actual returns in any given year may vary from this amount.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on investments in equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year up to 4.5% of its endowment funds' average fair value over the prior eight quarters through the quarter ending March 31st preceding the fiscal year in which the distribution is planned. The Board of Trustees approved, spending $336,910 in Fiscal 2009 and $324,081 in Fiscal 2008. These amounts are classified as unrestricted operating revenue in the statements of activities. In establishing these policies, the Organization considered the long-term expected return on its endowment. Accordingly, the Organization expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts plus inflation, defined as the Consumer Price Index. Additional real growth will be provided through new gifts and any excess investment return.

(9) Contributions Receivable

Contributions receivable consisted of the following at June 30:

		2009	2008
Capital campaign	$	157,500	460,000
Unrestricted		1,391,728	1,643,045
Restricted to future periods		10,349,100	10,626,100
	$	11,898,328	12,729,145

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

		2009	2008
Due within one year	$	8,607,494	6,349,145
Due within two to five years		3,290,834	6,380,000
		11,898,328	12,729,145
Less present value discount (ranging from 2.32% to 5.38%) and other allowances		(629,398)	(772,648)
	$	11,268,930	11,956,497

(10) Property and Equipment

Property and equipment consisted of the following at June 30:

		2009	2008
Land	$	4,884,000	4,884,000
Building		11,806,567	11,489,105
Furniture and fixtures		1,042,314	1,001,142
Equipment and software		4,644,471	4,298,784
Leasehold improvements		1,101,360	962,447
		23,478,712	22,635,478
Less accumulated depreciation and amortization		(5,205,087)	(4,213,845)
	$	18,273,625	18,421,633

(11) 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 acquisition and renovation costs are approximately $18,300,000. The acquisition was partially financed with proceeds from a $9,000,000 bond issuance (note 14). City Year supplemented the bond proceeds by utilizing $9,300,000 in contributions raised as of June 30, 2009 specifically for the purchase and renovation of this property. As the purpose of the restricted funds has been met, this amount ($2,207,967 and $2,120,470 for fiscal years 2009 and 2008, respectively), is recorded as unrestricted and included in contributions and private grants—capital campaign revenue.

(12) Federal Grants

City Year received grant awards from the Corporation for National and Community Service (CNCS) totaling $18,402,481 and $16,636,790 for fiscal year 2009 and 2008, respectively. The funds were awarded through the AmeriCorps program administered by CNCS. Included in the total grant award for fiscal year 2009 is $1,138,353 of match replacement funding provided by CNCS through the American Recovery and Reinvestment Act of 2009. Funds expended in fiscal year 2009 and 2008 totaled $17,962,777 and $14,508,080, 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 and applicable compliance supplement addendum. In addition, various federal, state, and private funding agencies reserve the right to perform separate program audits.

(13) Leases

Rental expense for office space was $2,125,108 and $1,744,619 for the years ended June 30, 2009 and 2008, respectively, exclusive of certain in-kind arrangements. Lease arrangements with an original term of more than one year expire on various dates through 2018.

Future minimum lease payments under operating leases as of June 30, 2009 are as follows:

		Amount due
Fiscal years ending June 30:		
2010	$	1,829,201
2011		1,545,344
2012		1,582,100
2013		1,079,531
2014		586,321
Future payments		1,092,494
	$	7,714,991

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

(14) 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.

(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, 2009 and 2008.

On March 27, 2009, City Year entered into a Thirteenth Loan Modification Agreement that added an unused commitment fee of 0.25% per annum on the unused portion of the Line, payable quarterly, and extended the expiration date of the Line to March 31, 2010.

There were no borrowings outstanding under the Line at June 30, 2009 or 2008.

(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, 2009 and 2008. Borrowings outstanding under the Revolver amounted to $0 at June 30, 2009 and $2,000,000 at June 30, 2008.

Interest expense under the credit facility was $49,768 and $354,240 for the years ended June 30, 2009 and 2008, respectively.

(15) 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 11) 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, 2009 was 0.28%. 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 $399,755 and $384,342 for the years ended June 30, 2009 and 2008, respectively.

Aggregate scheduled annual principal repayments for the credit facility and bonds payable as of June 30, 2009 were as follows:

		Amount due
Fiscal years ending June 30:		
2010	$	195,000
2011		200,000
2012		210,000
2013		215,000
2014		225,000
Thereafter		7,775,000
Total	$	8,820,000

(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.

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, 2009 and 2008.

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, 2009 and 2008.

(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, 2009:

						Fair value at June 30 asset (liability)		Incremental interest savings (expense)	
Counterparty	**Issue date**	**Effective date**	**Expiration date**	**Remaining notional amount**	**Swap fixed rate**	**2009**	**2008**	**2009**	**2008**
Bank of America, N.A.	06/21/06	07/01/06	07/01/26	$ 2,210,000	4.210%	$ (346,530)	(205,433)	(62,663)	(30,257)
Bank of America, N.A.	06/21/06	07/01/06	07/01/16	6,610,000	4.160	(745,186)	(454,933)	(22,017)	(87,395)
				$ 8,820,000		$ (1,091,716)	(660,366)	(84,680)	(117,652)

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, 2009 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. Because the swap fair values are based predominantly on observable inputs that are corroborated by market data, they are categorized as Level 2 for purposes of valuation disclosure under SFAS No. 157.

(16) Retirement Plan

The Organization participates in the City Year 401(k) Savings Plan (the Plan). The Plan is a defined contribution plan covering all employees of City Year who have at least six months of service with the Organization. The Plan became effective January 1, 2003 for the purpose of providing retirement benefits for eligible employees and is a safe harbor 401(k) deferral plan. The Plan generally allows enrolled employees to contribute up to an annual limit of the lesser of 60% of the eligible compensation or the maximum allowed by current legislation. To comply with the Safe Harbor provisions, employer contributions are fully vested when made. Matching contributions are made in an amount equal to 100% of the first 3% of eligible compensation and 50% of the next 2% of eligible compensation for total matching contributions of up to 4% each pay period. Employer matching contributions for the calendar years ended December 31, 2008 and 2007 were $395,340 and $339,648, respectively.

(17) 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.

City Year has determined that it has 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 of City Year South Africa are not consolidated here within, as the criteria for such consolidation is not met.