CITY YEAR, INC.

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors’ Report Thereon)

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

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, 2011 and 2010, 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 purpose of expressing an opinion on the effectiveness of 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, 2011 and 2010, 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

October 31, 2011

CITY YEAR, INC.

Statements of Financial Position

June 30, 2011 and 2010

Assets		**2011**	**2010**
Cash and equivalents:	$		
Unrestricted		14,665,140	8,564,631
Restricted for future periods		7,409,892	1,431,272
Total cash and equivalents		22,075,032	9,995,903
Government grants receivable, net		4,998,738	6,607,265
Contributions receivable, net (note 9)		7,238,270	8,156,760
Other assets		639,153	717,532
Investments, at fair value (note 7)		8,936,956	7,461,093
Property and equipment, net (notes 10 and 11)		18,462,301	17,946,048
Total assets	$	62,350,450	50,884,601
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	2,705,720	2,341,761
Accrued payroll and related expenses		2,329,487	1,888,588
Interest rate swaps (note 15)		1,190,653	1,348,554
Bonds payable (note 15)		8,425,000	8,625,000
Total liabilities		14,650,860	14,203,903
Commitments and contingencies (notes 12, 13, and 15)			
Net assets:			
Unrestricted		25,255,020	21,083,428
Temporarily restricted (note 3)		17,262,917	10,665,617
Permanently restricted (note 4)		5,181,653	4,931,653
Total net assets		47,699,590	36,680,698
Total liabilities and net assets	$	62,350,450	50,884,601

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Activities

Years ended June 30, 2011 and 2010

		2011	2010
Changes in unrestricted net assets:			
Operations:			
Revenues and other support:			
Contributions and private grants (note 6)	$	39,379,560	30,631,758
Federal grants – Corporation for National and Community Service (note 12)		21,529,808	20,442,834
Other government grants		12,174,259	7,994,141
Investment return utilized for operations (note 7)		284,316	—
Other income		143,744	367,335
Net assets released from restrictions (note 5)		5,786,926	8,560,207
Total operating revenues and other support		79,298,613	67,996,275
Expenses (note 6):			
Program services		59,459,301	51,763,368
Support services:			
Organizational support		8,347,631	6,895,854
Fundraising		7,878,545	5,746,847
Total support services		16,226,176	12,642,701
Total expenses		75,685,477	64,406,069
Increase in unrestricted net assets from operations		3,613,136	3,590,206
Nonoperating transactions:			
Contributions and private grants – capital campaign (note 11)		397,934	1,426,112
Investment return in excess of amounts utilized for operations (note 7)		2,621	632,430
Unrealized net gains (losses) on changes in fair value of interest-rate swaps (note 15)		157,901	(256,838)
Increase in unrestricted net assets from nonoperating transactions		558,456	1,801,704
Increase in unrestricted net assets		4,171,592	5,391,910
Changes in temporarily restricted net assets:			
Contributions		11,280,860	5,320,466
Unspent realized and unrealized net gains on endowments (note 7)		1,103,366	634,905
Net assets released from restrictions (note 5)		(5,786,926)	(8,560,207)
Increase (decrease) in temporarily restricted net assets		6,597,300	(2,604,836)
Changes in permanently restricted net assets:			
Contributions		250,000	250,000
Increase in permanently restricted net assets		250,000	250,000
Increase in net assets		11,018,892	3,037,074
Net assets, beginning of year		36,680,698	33,643,624
Net assets, end of year	$	47,699,590	36,680,698

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Increase in net assets	$	11,018,892	3,037,074
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		1,303,487	1,060,755
Realized and unrealized net gains on investments		(1,390,303)	(1,146,889)
Unrealized net (gains) losses on changes in fair value of interest-rate swaps		(157,901)	256,838
Contributions of land, equipment, and improvements		(1,231,681)	(78,143)
Contributions restricted for long-term investment – capital campaign and endowment		(647,934)	(1,676,112)
Changes in operating assets and liabilities:			
Government grants receivable, net		1,608,527	1,500,439
Contributions receivable, net		918,490	3,112,170
Other assets		69,778	251,140
Accounts payable, accrued expenses, and accrued payroll and related expenses		832,136	490,840
Net cash provided by operating activities		12,323,491	6,808,112
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		284,316	6,588,043
Purchases of investments		(369,875)	(7,205,607)
Renovations of building		(124,240)	(231,878)
Purchases of equipment		(482,497)	(371,812)
Net cash used in investing activities		(692,296)	(1,221,254)
Cash flows from financing activities:			
Repayments of bond payable		(200,000)	(195,000)
Contributions restricted for long-term investment – capital campaign and endowment		647,934	1,676,112
Net cash provided by financing activities		447,934	1,481,112
Net increase in cash and equivalents		12,079,129	7,067,970
Cash and equivalents, beginning of year		9,995,903	2,927,933
Cash and equivalents, end of year	$	22,075,032	9,995,903
Supplemental data:			
Cash paid for interest	$	359,007	380,723

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2011

		Program services	Organizational support	Fundraising	Total
Personnel expenses:					
Staff salaries	$	18,522,574	3,657,011	4,450,749	26,630,334
Corp member stipends		18,127,950			18,127,950
Payroll taxes and employee benefits		7,125,782	699,243	765,535	8,590,560
		43,776,306	4,356,254	5,216,284	53,348,844
Other expenses:					
Contract services		1,112,097	842,082	547,808	2,501,987
Professional services		—	561,130	—	561,130
Transportation, travel, and lodging		3,176,853	256,335	229,078	3,662,266
Retreats and conferences		177,704	26,182	32,417	236,303
Materials and supplies		2,778,072	85,943	117,264	2,981,279
Postage and shipping		107,385	22,762	61,686	191,833
Telecommunications		2,129,132	181,389	113,445	2,423,966
Printing, publications, dues, and fees		481,044	518,391	179,752	1,179,187
Occupancy and insurance		3,100,218	392,814	357	3,493,389
Equipment/space rental and repair		2,005,011	91,538	1,280,673	3,377,222
Interest		175,996	226,567	22,021	424,584
Depreciation and amortization		439,483	786,244	77,760	1,303,487
		15,682,995	3,991,377	2,662,261	22,336,633
Total expenses	$	59,459,301	8,347,631	7,878,545	75,685,477

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2010

	Program services	Organizational support	Fundraising	Total
Personnel expenses:				
Staff salaries	$ 16,283,627	3,003,098	3,258,773	22,545,498
Corp member stipends	15,162,602	—	—	15,162,602
Payroll taxes and employee benefits	6,178,958	618,043	515,121	7,312,122
	37,625,187	3,621,141	3,773,894	45,020,222
Other expenses:				
Contract services	937,018	354,369	355,368	1,646,755
Professional services	22,319	699,293	—	721,612
Transportation, travel, and lodging	2,940,671	230,209	158,275	3,329,155
Retreats and conferences	256,595	24,615	19,013	300,223
Materials and supplies	3,522,747	161,210	534,880	4,218,837
Postage and shipping	105,552	27,707	22,997	156,256
Telecommunications	1,228,568	85,551	61,314	1,375,433
Printing, publications, dues, and fees	368,698	359,673	161,099	889,470
Occupancy and insurance	3,166,952	420,781	49	3,587,782
Equipment/space rental and repair	960,698	77,397	568,872	1,606,967
Interest	210,237	255,542	26,823	492,602
Depreciation and amortization	418,126	578,366	64,263	1,060,755
	14,138,181	3,274,713	1,972,953	19,385,847
Total expenses	$ 51,763,368	6,895,854	5,746,847	64,406,069

See accompanying notes to financial statements.

(1) Organization Background and History

City Year Inc. (the Organization or City Year) was founded in Boston, Massachusetts in 1988 and now operates in twenty locations across the United States, including Columbia, SC, Providence, RI, Chicago, IL, Columbus, OH, San Jose, CA, San Antonio, TX, Cleveland, OH, Philadelphia, PA, Seattle, WA, Detroit, MI, Washington, DC, Manchester, NH, New York City, NY, Little Rock, AR. Baton Rouge, LA, New Orleans, LA, Los Angeles, CA, Miami, FL, and Milwaukee, WI. In 2005, City Year established its first international program in Johannesburg, South Africa, City Year South Africa Citizen Service Organization, and in 2009, City Year collaborated with an organization in the UK to establish a City Year program in London.

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 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 makers 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 (GAAP).

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.

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 up to 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.

(Continued)

Investment return in excess of amounts authorized for operations, unrealized net gains or losses from changes in fair value of interest rate swaps, and 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. Shares in registered funds are based on share values reported by the funds.

(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. FASB ASC 815, *Derivatives and Hedging*, 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

GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. GAAP also 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 cash equivalents, receivables from grantors and donors, 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 GAAP 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 and recorded within other assets are amortized over the contractual terms of the related bonds.

(l) Allocations

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. The Organization has determined that it has taken no significant uncertain tax positions and accordingly no provision for income taxes has been recorded.

(n) Reclassifications

Certain 2010 information has been reclassified to conform to the 2011 presentation.

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(3) Temporarily Restricted Net Assets

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

	2011	2010
Time restrictions	$ 12,721,342	7,204,783
Purpose restrictions	561,272	591,272
Board-designated endowment funds	2,656,993	2,649,618
Accumulated realized and unrealized net gains (losses) on permanent endowment funds:		
Donor-restricted endowment funds	1,015,914	259,135
Board-designated endowment funds	307,396	(39,191)
Total accumulated and unrealized net gains on endowment funds	1,323,310	219,944
	$ 17,262,917	10,665,617

Unexpended cash received from donors in fiscal year 2011 and 2010 for expenditures expected in subsequent fiscal years totaled $7,409,892 and $1,431,272, respectively.

(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:

	2011	2010
Endowment funds – program sponsorships	$ 5,181,653	4,931,653

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:

	2011	2010
Expiration of time restrictions	$ 5,506,926	7,370,533
Satisfaction of purpose restrictions	280,000	1,189,674
	$ 5,786,926	8,560,207

(Continued)

(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		2011	2010
Program services:			
Uniforms	$	1,236,750	1,247,305
Transportation and travel		610,714	768,661
Rent		230,165	243,322
Equipment rental and maintenance		1,548,721	759,965
Materials and supplies		52,300	110,092
Food		78,853	96,816
Total program services		3,757,503	3,226,161
Support services:			
Professional services		456,116	559,927
Rent		57,541	60,831
Total support services		513,657	620,758
Total	$	4,271,160	3,846,919

Contributions of land, equipment, and improvements in 2011 and 2010 were $1,231,681 and $78,143, respectively.

(7) Investments

GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 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.

In fiscal year 2010, the Organization liquidated its investments that existed as of June 30, 2009 and utilized the proceeds to invest in the TIFF Multi-Asset Fund (MAF) managed by The Investment Fund for Foundations (TIFF) Investment Program Inc., which is registered under the Investment Act of 1940 with the Securities and Exchange Commission. MAF prices and makes funds available for redemption daily.

The following table summarizes the classification of the Organization's investments in accordance with the fair value hierarchy as of June 30, 2011 and 2010:

		Level 1	
		2011	**2010**
MAF	$	8,936,956	7,461,093
Total investments	$	8,936,956	7,461,093

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

		2011	**2010**
Dividends and interest	$	206,260	158,122
Realized and unrealized net gains on investments		1,184,043	1,109,213
Total return on investments	$	1,390,303	1,267,335

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

		2011	**2010**
Investment return utilized for operations	$	284,316	—
Investment return in excess of amounts authorized for operations – nonoperating		2,621	632,430
Investment return – temporarily restricted		1,103,366	634,905
Total return on investments	$	1,390,303	1,267,335

(8) Endowment

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.

(Continued)

(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, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	1,015,914	5,181,653	6,197,567
Board-designated endowment funds	—	2,739,389	—	2,739,389
Total	$ —	3,755,303	5,181,653	8,936,956

Endowment net assets consisted of the following at June 30, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(2,621)	259,135	4,931,653	5,188,167
Board-designated endowment funds		—	2,272,926	—	2,272,926
Total	$	(2,621)	2,532,061	4,931,653	7,461,093

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2010	$	(2,621)	2,532,061	4,931,653	7,461,093
Investment return:					
Investment income		—	206,260	—	206,260
Net appreciation		2,621	1,181,422	—	1,184,043
Total investment return		2,621	1,387,682	—	1,390,303
Contributions		—	119,876	250,000	369,876
Endowment income appropriated		—	(284,316)	—	(284,316)
Endowment net assets, June 30, 2011	$	—	3,755,303	5,181,653	8,936,956

(Continued)

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2009	$	(635,051)	1,650,038	4,681,653	5,696,640
Investment return:					
Investment income		—	158,122	—	158,122
Net appreciation		632,430	476,783	—	1,109,213
Total investment return		632,430	634,905	—	1,267,335
Contributions		—	247,118	250,000	497,118
Endowment income appropriated		—	—	—	—
Endowment net assets, June 30, 2010	$	(2,621)	2,532,061	4,931,653	7,461,093

(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 zero and $2,621 as of June 30, 2011 and 2010, respectively. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as an increase in unrestricted net assets.

(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

(Continued)

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 elected not to appropriate distributions for operations in fiscal 2010. The Board of Trustees elected to appropriate distributions for operations of $284,316 in fiscal 2011. These amounts are classified as unrestricted operating revenue in the statement 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:

		2011	2010
Capital campaign	$	10,000	60,000
Unrestricted		1,130,547	1,259,477
Restricted to future periods		6,519,982	7,369,408
	$	7,660,529	8,688,885

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

		2011	2010
Due within one year	$	5,798,029	6,663,903
Due within two to five years		1,862,500	2,024,982
		7,660,529	8,688,885
Less present value discount (ranging from 1.75% to 5.38%) and other allowances		(422,259)	(532,125)
	$	7,238,270	8,156,760

(Continued)

(10) Property and Equipment

Property and equipment consisted of the following at June 30:

		2011	2010
Land	$	4,884,000	4,884,000
Building		12,178,235	12,081,275
Furniture and fixtures		1,224,288	1,104,454
Equipment and software		6,419,695	4,946,173
Leasehold improvements		1,302,447	1,187,475
		26,008,665	24,203,377
Less accumulated depreciation and amortization		(7,546,364)	(6,257,329)
	$	18,462,301	17,946,048

(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 conducted a capital campaign to partially fund the acquisition and renovation costs and to provide for capital reserves. The total acquisition and renovation costs were approximately $18,300,000. The acquisition was partially financed with proceeds from a $9,000,000 bond issuance (note 15). City Year supplemented the bond proceeds by utilizing contributions raised specifically for the purchase and renovation of this property. As the purpose of the restricted funds has been met, these contributions ($397,934 and $1,426,112 for fiscal years 2011 and 2010, respectively), are recorded as unrestricted, nonoperating transactions.

(12) Federal Grants

City Year received grant awards from the Corporation for National and Community Service (CNCS) totaling $21,615,468 and $20,585,866 for fiscal years 2011 and 2010, respectively. The funds were awarded through the AmeriCorps program administered by CNCS. Included in the total grant award for fiscal year 2010 is $3,874,081 of funding provided by CNCS through the American Recovery and Reinvestment Act of 2009. Funds expended in fiscal year 2011 and 2010 totaled $21,529,808 and $20,442,834, 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. Management does not believe that any potential liability resulting from these audits would have a material effect on the financial position of City Year.

(13) Leases

Rental expense for office space was $2,454,880 and $2,538,262 for the years ended June 30, 2011 and 2010, 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, 2011 are as follows:

		Amount due
Fiscal years ending June 30:		
2012	$	1,980,313
2013		1,454,636
2014		890,609
2015		531,962
2016		406,280
Thereafter		714,723
	$	5,978,523

The Organization is also responsible 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 had a committed line of credit (the Line) under the facility of $6,000,000 with maturity date of April 30, 2011. 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 debt service coverage ratio requirement, an annual clean-up period, and a limitation on the amount of the Organization's annual capital expenditures. The Organization was in compliance with such covenants at June 30, 2011 and 2010, with the exception of the debt service coverage ratio requirement calculated as of December 31, 2010. On April 8, 2011, City Year entered into a Fifteenth Loan Modification Agreement that provided a waiver for failure to comply with the aforementioned the ratio requirement and extended the expiration date of the Line to July 31, 2011.

There were no borrowings under the Line during the years ended June 30, 2011 and 2010. The Line was subsequently extended, as discussed in note 18.

(b) Revolving Bridge Loan

On June 21, 2006, City Year entered into a revolving bridge loan (the Revolver) with BoA, the purpose of which was 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 was a maximum of $5,000,000; with step-down provisions over five years. There were no borrowings under the Revolver during the years ended June 30, 2011 and 2010. The Revolver matured on June 21, 2011.

Interest expense and fees under the credit facility were $12,392 and $15,000 for the years ended June 30, 2011 and 2010, 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, 2011 was 0.18%. The debt repayment schedule provides for principal payments beginning July 1, 2008 and continuing over the remainder of the thirty-year term.

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 and fees were $336,583 and $368,528 for the years ended June 30, 2011 and 2010, respectively.

Aggregate scheduled annual principal repayments for bonds payable as of June 30, 2011 were as follows:

		Amount due
Fiscal years ending June 30:		
2012	$	210,000
2013		215,000
2014		225,000
2015		235,000
Thereafter		7,540,000
Total	$	8,425,000

(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, 2011 and 2010.

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, 2011 and 2010, with the exception of the debt service coverage ratio requirement calculated as of December 31, 2010. On April 8, 2011, City Year entered into a Waiver, Modification and Extension Agreement that provided a waiver for failure to comply with the aforementioned the ratio requirement, modified the certain definitions, and extended the expiration date of the Letter to September 21, 2011. On June 16, 2011, City Year entered into an Extension Agreement that extended the expiration date of the Letter from September 21, 2011 to November 21, 2011.

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(c) Interest Rate Swaps

City Year has two interest rate swap agreements with BoA to mitigate its exposure to variability in interest payments on the bonds payable. The terms of the swap agreements were as follows at June 30, 2011 and 2010:

Counterparty	Issue date	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Liability fair value at June 30 2011	2010
Bank of America, N.A.	06/21/06	07/01/06	07/01/26	$ 2,120,000	4.21%	$ (375,407)	(442,427)
Bank of America, N.A.	06/21/06	07/01/06	07/01/16	6,305,000	4.16%	(815,247)	(906,127)
				$ 8,425,000		$ (1,190,654)	(1,348,554)

While the swaps' fair values were zero at inception of the agreements, 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, 2011 and 2010 represents the amount 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 settles monthly. 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 within the fair value hierarchy.

(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 years ended June 30, 2011 and 2010 were $554,723 and $440,146, respectively.

(17) Affiliations

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 has determined that it has no obligation to support or be a beneficiary of the net assets of City Year South Africa. As such, the financial records of City Year South Africa are not consolidated here within, as the criteria for such consolidation is not met.

In 2009, the Organization entered into an affiliation agreement with City Youth Limited, an organization incorporated as a Company Limited by Guarantee under the English Charity Act. The agreement established guidelines for the operation of a City Year program in London. City Youth Limited is financially independent from City Year. City Year does not have any financial obligation, responsibility or liability to City Youth Limited. As such, the financial records of City Youth Limited are not consolidated here within, as the criteria for such consolidation is not met.

(18) Subsequent Events

In connection with the preparation of the financial statements, the Organization evaluated subsequent events after the statement of financial position date of June 30, 2011 through October 31, 2011, which was the date the financial statements were issued.

On July 26, 2011, City Year entered into a Sixteenth Loan Modification Agreement with BoA that extended the expiration date of the Line (see note 14(a)) to September 30, 2011. On September 9, 2011, City Year entered into a Seventeenth Loan Modification Agreement that modified certain terms and extended the expiration date to January 31, 2013.

On September 15, 2011, City Year entered into a Modification and Extension Agreement, and other related agreements, with BoA to provide for various modifications of the Reimbursement Agreement (see note 15(b)) extending its expiration date of the Letter from November 21, 2011 to June 21, 2016.