



CITY YEAR, INC.

Financial Statements

June 30, 2020 and 2019

(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 financial statements of City Year, Inc. (City Year), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Year as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
November 5, 2020

CITY YEAR, INC.

Statements of Financial Position

June 30, 2020 and 2019

Assets	2020	2019
Cash and equivalents	\$ 36,949,014	40,395,717
Government grants receivable, net	13,789,885	16,718,186
Contributions receivable, net (note 9)	1,839,297	2,305,276
Other assets (note 15)	1,759,597	2,538,130
Restricted cash (note 13)	169,801	169,801
Investments, at fair value (note 7)	18,407,136	15,830,884
Property and equipment, net (note 10)	14,676,616	15,119,924
Total assets	\$ 87,591,346	93,077,918
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,904,345	3,702,929
Accrued payroll and related expenses	7,227,597	6,212,588
Interest rate swaps (note 14)	646,962	485,151
Bonds payable (note 14)	6,420,000	6,665,000
Total liabilities	17,198,904	17,065,668
Commitments and contingencies (notes 11, 12, and 14)		
Net assets:		
Without donor restrictions	46,517,033	49,736,554
With donor restrictions (note 4)	23,875,409	26,275,696
Total net assets	70,392,442	76,012,250
Total liabilities and net assets	\$ 87,591,346	93,077,918

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Activities

Years ended June 30, 2020 and 2019

	2020	2019
Changes in net assets without donor restrictions:		
Operations:		
Revenues and other support:		
Contributions and private grants (note 6)	\$ 73,453,508	74,568,253
Federal grants – Corporation for National and Community Service (note 11)	45,286,378	45,390,635
School district and other government grants	39,495,349	37,740,347
Investment return utilized for operations (note 7)	673,924	605,808
Other income	521,735	238,553
Board designated surplus funds authorized for operations	4,201,000	3,033,721
Net assets released from restrictions (note 5)	10,736,877	12,123,102
Total operating revenues and other support	174,368,771	173,700,419
Expenses (note 6):		
Program services	140,934,421	137,257,716
Supporting services:		
Organizational support	16,374,954	14,874,914
Fundraising	15,678,196	17,852,786
Total expenses	172,987,571	169,985,416
Change in net assets without donor restrictions from operations	1,381,200	3,715,003
Nonoperating transactions:		
Board designated surplus funds authorized for operations	(4,201,000)	(3,033,721)
Investment return on endowments (note 7)	537,984	186,421
Investment return utilized for operations (note 7)	(294,540)	(246,883)
Restructuring charges	(481,354)	—
Unrealized net (loss)/gain on changes in fair value of interest-rate swaps (note 14)	(161,811)	(215,678)
Change in net assets without donor restrictions from nonoperating transactions	(4,600,721)	(3,309,861)
Change in net assets without donor restrictions	(3,219,521)	405,142
Changes in net assets with donor restrictions:		
Contributions	8,209,228	17,211,628
Investment return on endowments (note 7)	506,746	204,080
Investment return utilized for operations (note 7)	(379,384)	(358,925)
Net assets released from restrictions (note 5)	(10,736,877)	(12,123,102)
Change in net assets with donor restrictions	(2,400,287)	4,933,681
Change in net assets	(5,619,808)	5,338,823
Net assets, beginning of year	76,012,250	70,673,427
Net assets, end of year	\$ 70,392,442	76,012,250

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2020

	<u>Program services</u>	<u>Organizational support</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses:				
Staff salaries	\$ 56,480,584	8,979,023	10,983,750	76,443,357
Corp member stipends	42,753,712	—	—	42,753,712
Payroll taxes and employee benefits	18,475,561	1,435,331	2,105,595	22,016,487
	<u>117,709,857</u>	<u>10,414,354</u>	<u>13,089,345</u>	<u>141,213,556</u>
Other expenses:				
Consulting and professional services	3,651,478	2,151,693	439,162	6,242,333
Transportation, travel, and lodging	3,571,907	198,212	220,028	3,990,147
Conferences and training seminars	304,549	20,926	35,533	361,008
Advertising and recruiting	1,721,119	72,263	49,727	1,843,109
Materials and supplies	4,315,539	118,251	731,662	5,165,452
Information technology	1,193,854	2,096,222	31,512	3,321,588
Telecommunications	727,666	200,110	25,385	953,161
Dues and fees	675,342	163,192	149,145	987,679
Occupancy and insurance	5,724,466	521,447	23,817	6,269,730
Event venue expense	669,358	2,500	851,585	1,523,443
Interest	106,780	137,136	10,322	254,238
Depreciation and amortization	562,506	278,648	20,973	862,127
	<u>23,224,564</u>	<u>5,960,600</u>	<u>2,588,851</u>	<u>31,774,015</u>
Total expenses	<u>\$ 140,934,421</u>	<u>16,374,954</u>	<u>15,678,196</u>	<u>172,987,571</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2019

	<u>Program services</u>	<u>Organizational support</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses:				
Staff salaries	\$ 53,835,785	7,545,591	10,761,847	72,143,223
Corp member stipends	40,935,135	—	—	40,935,135
Payroll taxes and employee benefits	16,288,402	1,075,606	2,053,430	19,417,438
	<u>111,059,322</u>	<u>8,621,197</u>	<u>12,815,277</u>	<u>132,495,796</u>
Other expenses:				
Consulting and professional services	3,293,086	1,971,303	662,552	5,926,941
Transportation, travel, and lodging	5,090,509	319,213	496,974	5,906,696
Conferences and training seminars	317,530	30,766	40,320	388,616
Advertising and recruiting	1,784,624	148,135	76,648	2,009,407
Materials and supplies	5,668,748	157,072	1,409,177	7,234,997
Information technology	1,116,491	1,894,639	62,968	3,074,098
Telecommunications	830,327	348,160	21,921	1,200,408
Dues and fees	575,522	175,031	160,689	911,242
Occupancy and insurance	5,603,572	493,646	21,091	6,118,309
Event venue expense	1,121,514	1,250	2,023,039	3,145,803
Interest	101,813	146,846	12,769	261,428
Depreciation and amortization	694,658	567,656	49,361	1,311,675
	<u>26,198,394</u>	<u>6,253,717</u>	<u>5,037,509</u>	<u>37,489,620</u>
Total expenses	<u>\$ 137,257,716</u>	<u>14,874,914</u>	<u>17,852,786</u>	<u>169,985,416</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (5,619,808)	5,338,823
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	862,127	1,311,675
Realized and unrealized net gains on investments	(1,044,730)	(390,501)
Changes in fair value of interest-rate swaps	161,811	215,678
Contributions restricted for long-term investment	(37,500)	(37,500)
Changes in operating assets and liabilities:		
Government grants receivable, net	2,928,301	(2,704,477)
Contributions receivable, net	465,979	2,770,809
Other assets	778,533	(164,668)
Accounts payable and accrued expenses	(798,584)	352,597
Accrued payroll and related expenses	1,015,009	1,179,731
Net cash provided by (used in) operating activities	(1,288,862)	7,872,167
Cash flows from investing activities:		
Purchases of investments	(34,767,822)	(137,500)
Sales of investments	33,236,300	—
Purchases of equipment	(418,819)	(251,553)
Net cash used in investing activities	(1,950,341)	(389,053)
Cash flows from financing activities:		
Repayments of bond payable	(245,000)	(235,000)
Contributions restricted for long-term investment	37,500	37,500
Net cash used in financing activities	(207,500)	(197,500)
Net increase (decrease) in cash and equivalents and restricted cash	(3,446,703)	7,285,614
Cash and equivalents and restricted cash, beginning of year	40,565,518	33,279,904
Cash and equivalents and restricted cash, end of year	\$ 37,118,815	40,565,518
Supplemental data:		
Cash paid for interest	\$ 254,415	258,379

See accompanying notes to financial statements.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

(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-nine 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, Milwaukee, WI, Denver, CO, Orlando, FL, Sacramento, CA, Jacksonville, FL, Tulsa, OK, Dallas, TX, Kansas City, MO, Memphis, TN and Buffalo, NY. In 2005, City Year established its first international program, City Year South Africa Citizen Service Organization, in Johannesburg, South Africa and in 2009, City Year collaborated with an organization in the UK to establish a second international City Year program with operations in London, Manchester, and Birmingham.

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:

Without Donor Restriction – Net assets not subject to donor-imposed stipulations but which may be designated for specific purposes by the Organization's Trustees.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions, including time restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

use is restricted by explicit donor stipulations or law. Expirations of donor restrictions on net assets are reported as reclassifications between the classes of net assets.

Expirations of donor 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 net assets without donor restriction and net assets with donor restrictions 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.

The endowment component classified as net assets without donor restrictions is comprised of amounts designated by the Board to function as endowments which amounts to \$9,775,721 and \$7,364,331 as of June 30, 2020 and 2019, respectively.

(b) Statement of Activities

The statement of activities report all changes in net assets, including changes in net assets without donor restrictions from operating and nonoperating transactions. Operating revenues consist of those items attributable to City Year's ongoing service efforts. Contributions without donor restrictions 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. Board-designated surplus funds appropriated for spending by the Board of Trustees are also presented as operating revenue. The amount of board-designated surplus available for appropriations is defined as total net assets without donor restrictions in excess of 10% budgeted expenses for the upcoming fiscal year, less property and equipment net of related debt. For the years ended June 30, 2020 and 2019, City Year authorized \$4,201,000 and \$3,033,721, respectively, for operations. The balance of board designated surplus available for appropriation as of June 30, 2020 and 2019 was \$20,473,897 and \$23,163,073, respectively.

The Organization follows the provisions of ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the Organization follows the provisions of ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides guidance as to whether the entity should account for a grant (or similar transaction) as a contribution or as an exchange transaction. A summary of the Organization's specific revenue recognition practices follows:

- Grants awarded by federal and other sponsors, which generally are considered nonexchange transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred or other conditions under the agreements are met. The Organization has elected the simultaneous release policy available under ASU 2018-08, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. Payments received in advance of expenditures are recorded as deferred revenue until expended

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

- Revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which we expect to be entitled in exchange for those good or services (i.e. the transaction price). Services provided under school contracts are provided during the program year, which generally aligns with the Organization's fiscal year.
- Unconditional contributions, including unconditional promises to give, are recognized at fair value and increase net assets in the period received. Written promises to give that are scheduled to be received after the balance sheet date are shown as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in net assets with donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at rates commensurate with the estimated risk of receipt of the pledge. Amortization of the discount is recorded as additional contribution revenue in the appropriate net asset category. Contributions of assets other than cash are recorded at their estimated fair value.
- Dividends, interest, and net unrealized gains (losses) on long-term investments are reported as (1) increases in net assets with donor restrictions if the terms of the contributions required these to be added to principal of gifts to be held in perpetuity; (2) increases (decreases) in net assets with donor restrictions if the terms of the contributions impose restrictions on the use of the income and gains; or (3) increases (decreases) in net assets without donor restrictions in all other cases.

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, unrealized net gains or losses from changes in fair value of interest rate swaps, board-designated surplus funds appropriated for spending, and any contributions received for nonoperating purposes are reported as nonoperating items in the statements of activities.

(c) Cash and Cash 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.

The following table provides a reconciliation of cash, cash equivalents and restricted cash within the balance sheet that sums to the total of such amounts as shown on the statement of cash flows as of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 36,949,014	40,395,717
Restricted cash	<u>169,801</u>	<u>169,801</u>
Total cash, cash equivalents and restricted cash	<u>\$ 37,118,815</u>	<u>40,565,518</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

(d) Investments

Investments are reported at fair value. Shares in registered funds are based on published 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	3–15 years
Equipment and software	3–10 years
Leasehold improvements	Shorter of life of lease or improvements

(f) Contributed Goods and Professional Services

As more fully described in note 6, 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 member 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) 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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

(j) *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.

(k) *Tax Status*

The Organization generally does not provide for income taxes since it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

ASC 740, *Income Taxes*, permits an entity to recognize the benefit and requires accrual of an uncertain tax position only when the position is “more likely than not” to be sustained in the event of examination by tax authorities. In evaluating whether a tax position has met the recognition threshold, the Organization must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. ASC 740 also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. Tax positions deemed to meet the “more-likely than-not” threshold are recorded as a tax expense in the current year. There were no uncertain tax positions as of June 30, 2020 and 2019.

(l) *Recent Accounting Pronouncements*

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the changes during the period in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Organization adopted ASU 2016-18 retrospectively as of July 1, 2018 to include restricted cash amounts within the statement of cash flows.

(m) *Reclassifications*

Certain amounts in prior year have been reclassified to conform to the current year presentation.

(3) **Financial Assets and Liquidity Resources**

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and scheduled principal payments on debt, were as follows:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 32,593,842	34,072,747
Contributions receivable	1,517,358	1,486,988
Government grants receivables due in a year, net	13,789,885	16,718,186
Board designations:		
Future fiscal budgeted endowment payout	<u>728,287</u>	<u>673,924</u>
Total financial assets available within one year	<u>\$ 48,629,372</u>	<u>52,951,845</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

City Year is substantially supported by cost reimbursement grants that require funds to be spent in order to receive payments. City Year's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Additionally, as of June 30, 2020, City Year has an additional \$9,421,674 in board designated funds, which are available for general expenditure with Board approval. As of June 30, 2019, City year had an additional \$7,069,792 in board designated funds.

(4) Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Time restrictions	\$ 12,537,761	15,921,638
Purpose restrictions:		
School programs and education research	2,302,863	1,402,425
Challenge matching grant	323,370	323,370
Public policy research	—	71,710
Graduation awards	80,000	90,000
Endowments:		
School programs	6,613,231	6,478,489
Headquarters initiatives	2,005,341	1,975,400
Graduation awards	12,843	12,664
	<u>\$ 23,875,409</u>	<u>26,275,696</u>

(5) Net Assets Released from Restrictions

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

	<u>2020</u>	<u>2019</u>
Expiration of time restrictions	\$ 9,281,613	10,156,333
Satisfaction of purpose restrictions	<u>1,455,264</u>	<u>1,966,769</u>
	<u>\$ 10,736,877</u>	<u>12,123,102</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

(6) In-Kind Contributions

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

<u>Nature</u>	<u>2020</u>	<u>2019</u>
Program services:		
Transportation and travel	\$ 584,843	627,933
Rent	—	175,894
Total program services	<u>584,843</u>	<u>803,827</u>
Support services:		
Professional services	735,304	693,886
Consulting services	—	100,000
Total support services	<u>735,304</u>	<u>793,886</u>
Total	<u>\$ 1,320,147</u>	<u>1,597,713</u>

(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 under US GAAP are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

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.

On May 1, 2020 City Year liquidated the investment 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, and invested in exchange traded funds held by Fidelity Investments.

The following table summarizes the classification of the Organization's investments in accordance with the fair value hierarchy as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
MAF (Level 1)	\$ —	15,830,884
Exchange Traded Funds (Level 1)	<u>18,407,136</u>	<u>—</u>
Total investments	<u>\$ 18,407,136</u>	<u>15,830,884</u>

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

	<u>2020</u>	<u>2019</u>
Dividends and interest	\$ 73,864	29,401
Realized and unrealized net gains on investments	<u>970,866</u>	<u>361,100</u>
Total return on investments	<u>\$ 1,044,730</u>	<u>390,501</u>

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

	<u>2020</u>	<u>2019</u>
Investment return on endowments – board designated	\$ 537,984	186,421
Investment return on endowments – donor restricted	<u>506,746</u>	<u>204,080</u>
Total return on investments	<u>\$ 1,044,730</u>	<u>390,501</u>

(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

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

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 net assets with donor restrictions (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.

Accumulations to the endowment that do not have to be maintained perpetuity remain classified as net assets with donor restriction 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, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Historical gift value	\$ —	6,847,024	6,847,024
Appreciation	—	1,784,391	1,784,391
Total donor-restricted endowment funds	—	8,631,415	8,631,415
Board-designated endowment funds	9,775,721	—	9,775,721
Total	<u>\$ 9,775,721</u>	<u>8,631,415</u>	<u>18,407,136</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

Endowment net assets consisted of the following at June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Historical gift value	\$ —	6,809,524	6,809,524
Appreciation	—	1,657,029	1,657,029
Total donor-restricted endowment funds	—	8,466,553	8,466,553
Board-designated endowment funds	<u>7,364,331</u>	<u>—</u>	<u>7,364,331</u>
Total	<u>\$ 7,364,331</u>	<u>8,466,553</u>	<u>15,830,884</u>

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ 7,364,331	8,466,553	15,830,884
Investment return:			
Interest and dividends	38,674	35,190	73,864
Net appreciation	<u>499,310</u>	<u>471,556</u>	<u>970,866</u>
Total investment return	537,984	506,746	1,044,730
Transfers in	673,924	—	673,924
Contributions	1,494,022	37,500	1,531,522
Endowment return appropriated	<u>(294,540)</u>	<u>(379,384)</u>	<u>(673,924)</u>
Endowment net assets, June 30, 2020	<u>\$ 9,775,721</u>	<u>8,631,415</u>	<u>18,407,136</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 6,718,985	8,583,898	15,302,883
Investment return:			
Interest and dividends	13,185	16,216	29,401
Net appreciation	173,236	187,864	361,100
Total investment return	186,421	204,080	390,501
Transfers in	605,808	—	605,808
Contributions	100,000	37,500	137,500
Endowment return appropriated	(246,883)	(358,925)	(605,808)
Endowment net assets, June 30, 2019	<u>\$ 7,364,331</u>	<u>8,466,553</u>	<u>15,830,884</u>

(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. No deficiencies of this nature were reported in net assets with donor restrictions as of June 30, 2020 and 2019, respectively.

(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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

(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 to appropriate distributions for operations of \$673,924 in fiscal 2020 and \$605,808 in fiscal 2019. These amounts are classified as operating revenue without donor restrictions 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:

	2020	2019
Without donor restrictions	\$ 247,351	540,250
Restricted to future periods	1,700,000	1,925,000
	\$ 1,947,351	2,465,250

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

	2020	2019
Due within one year	\$ 1,597,351	1,565,250
Due within two to five years	350,000	900,000
	1,947,351	2,465,250
Less present value discount (ranging from 2.87% to 7.99%) and other allowances	(108,054)	(159,974)
	\$ 1,839,297	2,305,276

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

(10) Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 4,884,000	4,884,000
Building	13,119,706	13,119,706
Furniture, fixtures and equipment	4,045,474	3,742,501
IT hardware and IT software	7,945,243	7,854,104
Leasehold improvements	<u>2,135,227</u>	<u>2,156,337</u>
	32,129,650	31,756,648
Less accumulated depreciation and amortization	<u>(17,453,034)</u>	<u>(16,636,724)</u>
	<u>\$ 14,676,616</u>	<u>15,119,924</u>

(11) Federal Grants

City Year received grant awards from the Corporation for National and Community Service (CNCS) totaling \$47,083,575 and \$47,925,291 for fiscal years 2020 and 2019, respectively. The funds were awarded through the AmeriCorps program administered by CNCS. Funds expended and recognized as revenue for the AmeriCorps program in fiscal year 2020 and 2019 totaled \$45,286,378 and \$45,390,635, respectively. City Year expended and recognized revenue for other federal programs totaling \$297,471 and \$605,851 in fiscal year 2020 and 2019, respectively. The Organization's federal grant programs are subject to financial and compliance audits. 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.

(12) Leases

Rental expense for office space was \$4,357,182 and \$4,276,109 for the years ended June 30, 2020 and 2019, respectively, inclusive of certain in-kind arrangements. Lease arrangements with an original term of more than one year expire on various dates through 2028.

CITY YEAR, INC.
Notes to Financial Statements
June 30, 2020 and 2019

Future minimum lease payments under operating leases as of June 30, 2020 are as follows:

	Amount due
Fiscal years ending June 30:	
2021	\$ 3,917,283
2022	3,515,892
2023	3,171,815
2024	2,732,218
2025	2,333,868
Thereafter	2,690,404
	\$ 18,361,480

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

(13) Credit Facility

The Organization has a \$10,000,000 credit facility (the Facility) with Bank of America, N.A. (BoA) maturing on March 26, 2021. The Facility is secured by all assets of the Organization, except for the portion of assets equal to the amount of net assets with donor restriction to be held in perpetuity.

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 Facility. The Facility 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. There were no borrowings under the Facility Line during the years ended June 30, 2020 and 2019.

On February 8, 2017, the Organization has secured from BoA an irrevocable standby letter of credit, for the benefit of the landlord as required security deposit on their New York office facility. The letter of credit expires on February 20, 2021 but may renewed through December 31, 2027. City Year purchased a certificate of deposit as collateral as required by the Security Agreement with BoA. The certificate of deposit totaling \$169,801 is presented as restricted cash in the accompanying financial statements.

(14) Long-Term Debt

(a) Bonds Payable

City Year entered into a Loan and Security Agreement, dated May 1, 2013, with Massachusetts Development Finance Agency, Banc of America Public Capital Corp., and Bank of America, N.A. This agreement provided, among other things, for the issuance of Massachusetts Development Finance Agency Revenue Bonds, City Year Issue, Series 2013, in the aggregate principal amount of \$8,100,000. City Year used the proceeds from the issuance of those bonds to refund the outstanding amount of the Variable Rate Demand Revenue Bonds, City Year Issue, Series 2006, issued in the original principal amount of \$9,000,000.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

City Year entered into the First Amendment to the Loan and Security Agreement, dated May 1, 2018, with Massachusetts Development Finance Agency, Banc of America Public Capital Corp., and Bank of America, N.A. This amendment provided, among other things, to amend and restate the Series 2013 Bonds. The restated bonds were purchased by Banc of America Public Capital Corp. as a Nonbank qualified tax exempt private placement loan facility, with a put term of five years from the date of closing, May 1, 2018.

The bond matures through July 1, 2036 and bears interest at a tax exempt rate equal to 80% of the 30-day BBA LIBOR plus the Applicable Margin. The interest rate at June 30, 2020 and 2019 was 0.738% and 2.552%, respectively.

Payment of the principal and interest on the bonds is secured by a mortgage on the real property located at 287 Columbus Avenue, Boston, Massachusetts.

In addition to and in conjunction with the Loan and Security Agreement, City Year entered into a Continuing Covenants Agreement with Banc of America Public Capital Corp., and other related agreements, dated May 7, 2013, and amended May 1, 2018. The agreement contains certain financial covenants, including a ratio requirement, minimum liquidity requirement, and limitations on the amount of annual capital expenditures.

Aggregate scheduled annual principal repayments for bonds payable as of June 30, 2020 were as follows:

2021	\$	260,000
2022		265,000
2023		280,000
2024		295,000
2025		310,000
Thereafter		<u>5,010,000</u>
Total	\$	<u><u>6,420,000</u></u>

(b) 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, 2020 and 2019:

Counterparty	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Liability fair value at June 30	
					2020	2019
Bank of America, N.A.	07/01/06	07/01/26	\$ 1,610,000	4.2100 %	\$ (330,449)	(282,627)
Bank of America, N.A.	05/01/18	07/01/26	<u>4,810,000</u>	2.5540 %	<u>(316,513)</u>	<u>(202,524)</u>
			<u>\$ 6,420,000</u>		<u>\$ (646,962)</u>	<u>(485,151)</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019 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. Because the swap fair values are based predominantly on observable inputs that are corroborated by market data, they are categorized in Level 2 of the fair value hierarchy. Changes in fair value of interest-rate swaps for the period ending June 30, 2020 and 2019 were \$161,811 and \$215,678, respectively.

(15) Retirement Plans

The Organization participates in the City Year 401(k) Savings Plan (the Plan), which is a defined contribution plan covering all employees of City Year who have at least six months of service with the Organization. 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, 2020 and 2019 were \$1,946,270 and \$1,853,638, respectively.

City Year has established an Internal Revenue Code Section 457(b) plan for a limited number of the Organization's top management employees. Under this plan, participating employees can elect to defer compensation within the Internal Revenue Code limits. The Organization will pay the deferred compensation under this Plan upon the employee leaving the Organization or under certain conditions outlined in the Plan. The compensation deferred under this plan is credited with earnings or losses measured by the mirrored rate of return on the investments selected by the participant. The deferred compensation had a market value as of June 30, 2020 and 2019 of \$8,890 and \$129,291, respectively, and is included with other assets in the accompanying financial statements.

(16) Affiliations

City Year is affiliated with international programs in Johannesburg, South Africa and in London, Manchester, and Birmingham in the UK which are legally separate from City Year and separately governed. Accordingly, the financial records of the organizations are not consolidated herein.

(17) Subsequent Events

In connection with the preparation of these financial statements, the Organization evaluated subsequent events after the statement of financial position date of June 30, 2020 through November 5, 2020, which was the date the financial statements were issued. No subsequent events were noted.

The spread of COVID-19 around the world in 2020 has caused significant volatility in the U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. Between March and June 2020, City Year cancelled most fundraising events, resulting in lost contributions revenue and a corresponding reduction in event related expenses. City Year is actively monitoring the extent of the impact on its operations.