KPMG

CITY YEAR, INC.

Financial Statements

June 30, 2017 and 2016

(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.:

Report on the Financial Statements

We have audited the accompanying financial statements of City Year, Inc. (City Year), which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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
October 27, 2017

CITY YEAR, INC.

Statements of Financial Position

June 30, 2017 and 2016

Assets		**2017**	**2016**
Cash and equivalents:			
Unrestricted	$	20,836,417	20,934,709
Restricted for future periods		9,507,837	6,825,531
Total cash and equivalents		30,344,254	27,760,240
Government grants receivable, net		10,601,666	9,348,163
Contributions receivable, net (note 9)		6,838,232	7,705,170
Other assets (note 15)		2,081,007	2,230,105
Investments, at fair value (note 7)		14,105,400	12,419,422
Property and equipment, net (note 10)		17,225,302	18,727,105
Total assets	$	81,195,861	78,190,205
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	2,484,985	3,143,013
Accrued payroll and related expenses		5,060,013	3,949,068
Interest rate swaps (note 14)		444,544	762,737
Bonds payable (note 14)		7,125,000	7,385,000
Total liabilities		15,114,542	15,239,818
Commitments and contingencies (notes 11, 12, and 14)			
Net assets:			
Unrestricted		42,045,263	38,658,522
Temporarily restricted (note 3)		17,854,403	18,210,212
Permanently restricted (note 4)		6,181,653	6,081,653
Total net assets		66,081,319	62,950,387
Total liabilities and net assets	$	81,195,861	78,190,205

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Activities

Years ended June 30, 2017 and 2016

	2017	2016
Changes in unrestricted net assets:		
Operations:		
Revenues and other support:		
Contributions and private grants (note 6)	$ 71,605,526	72,155,656
Federal grants – Corporation for National and Community Service (note 11)	37,452,206	33,942,136
School District and other government grants	34,764,960	31,532,175
Investment return utilized for operations (note 7)	541,328	519,253
Other income	209,050	230,912
Board designated surplus funds authorized for operations	1,340,000	530,000
Net assets released from restrictions (note 5)	9,411,879	8,710,726
Total operating revenues and other support	155,324,949	147,620,858
Expenses (note 6):		
Program services	120,102,565	112,341,515
Supporting services:		
Organizational support	14,351,324	14,085,772
Fundraising	16,508,516	16,514,772
Total expenses	150,962,405	142,942,059
Change in unrestricted net assets from operations	4,362,544	4,678,799
Nonoperating transactions:		
Board designated surplus funds authorized for operations	(1,340,000)	(530,000)
Investment return below that utilized for operations (note 7)	46,004	(45,367)
Unrealized net gains on changes in fair value of interest-rate swaps (note 14)	318,193	25,882
Change in unrestricted net assets from nonoperating transactions	(975,803)	(549,485)
Change in unrestricted net assets	3,386,741	4,129,314
Changes in temporarily restricted net assets:		
Contributions	8,157,424	10,446,612
Realized gain on sale of land investment	—	55,000
Return on endowments not utilized (note 7)	898,646	(833,950)
Net assets released from restrictions (note 5)	(9,411,879)	(8,710,726)
Change in temporarily restricted net assets	(355,809)	956,936
Changes in permanently restricted net assets:		
Contributions	100,000	100,000
Change in permanently restricted net assets	100,000	100,000
Change in net assets	3,130,932	5,186,250
Net assets, beginning of year	62,950,387	57,764,137
Net assets, end of year	$ 66,081,319	62,950,387

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2017

	Program services	Organizational support	Fundraising	Total
Personnel expenses:				
Staff salaries	$ 43,816,396	6,940,302	9,832,671	60,589,369
Corp member stipends	38,929,662	—	—	38,929,662
Payroll taxes and employee benefits	13,678,119	1,042,826	1,913,212	16,634,157
	96,424,177	7,983,128	11,745,883	116,153,188
Other expenses:				
Consulting and professional services	3,290,417	1,055,007	801,670	5,147,094
Transportation, travel, and lodging	5,017,688	312,134	320,349	5,650,171
Conferences and training seminars	356,630	24,531	50,644	431,805
Advertising and recruiting	753,788	78,051	101,384	933,223
Materials and supplies	4,655,795	166,957	1,227,756	6,050,508
Information technology	965,404	1,741,464	30,913	2,737,781
Telecommunications	1,108,210	751,566	26,235	1,886,011
Dues and fees	359,618	176,939	173,787	710,344
Occupancy and insurance	5,008,657	495,411	52,698	5,556,766
Event venue expense	1,387,751	21,890	1,860,963	3,270,604
Interest	119,889	164,466	12,380	296,735
Depreciation and amortization	654,541	1,379,780	103,854	2,138,175
	23,678,388	6,368,196	4,762,633	34,809,217
Total expenses	$ 120,102,565	14,351,324	16,508,516	150,962,405

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2016

	Program services	Organizational support	Fundraising	Total
Personnel expenses:				
Staff salaries	$ 39,849,773	6,125,990	9,435,543	55,411,306
Corp member stipends	37,603,095	—	199,175	37,802,270
Payroll taxes and employee benefits	13,189,612	871,934	1,895,480	15,957,026
	90,642,480	6,997,924	11,530,198	109,170,602
Other expenses:				
Consulting and professional services	2,798,559	2,226,453	858,208	5,883,220
Transportation, travel, and lodging	4,404,064	246,771	241,002	4,891,837
Conferences and training seminars	119,255	24,957	39,515	183,727
Advertising and recruiting	654,482	108,901	76,176	839,559
Materials and supplies	4,226,044	164,127	781,615	5,171,786
Information technology	840,307	1,255,786	103,308	2,199,401
Telecommunications	1,221,870	833,950	27,211	2,083,031
Dues and fees	95,132	176,586	220,177	491,895
Occupancy and insurance	5,102,638	519,077	26,862	5,648,577
Event venue expense	1,506,467	2,626	2,496,732	4,005,825
Interest	124,358	171,136	14,380	309,874
Depreciation and amortization	605,859	1,357,478	99,388	2,062,725
	21,699,035	7,087,848	4,984,574	33,771,457
Total expenses	$ 112,341,515	14,085,772	16,514,772	142,942,059

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 3,130,932	5,186,250
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,138,175	2,062,725
Realized and unrealized net (gains) losses on investments	(1,485,978)	305,064
Changes in fair value of interest-rate swaps	(318,193)	(25,882)
Contributions restricted for long-term investment	(100,000)	(100,000)
Changes in operating assets and liabilities:		
Government grants receivable, net	(1,253,503)	(729,334)
Contributions receivable, net	866,938	(1,906,870)
Other assets	149,098	(775,294)
Accounts payable and accrued expenses	(658,028)	(360,617)
Accrued payroll and related expenses	1,110,945	352,901
Net cash provided by operating activities	3,580,386	4,008,943
Cash flows from investing activities:		
Purchases of investments	(200,000)	(345,000)
Sale of investment	—	550,000
Purchases of equipment	(636,372)	(681,288)
Net cash used in investing activities	(836,372)	(476,288)
Cash flows from financing activities:		
Repayments of bond payable	(260,000)	(250,000)
Contributions restricted for long-term investment	100,000	100,000
Net cash used in financing activities	(160,000)	(150,000)
Net increase in cash and equivalents	2,584,014	3,382,655
Cash and equivalents, beginning of year	27,760,240	24,377,585
Cash and equivalents, end of year	$ 30,344,254	27,760,240
Supplemental data:		
Cash paid for interest	$ 297,479	308,023

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-seven 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 and Kansas City, MO. 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:

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 and represents the historic value of donor-restricted endowments funds.

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 from donors that are scheduled to be received after the 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 from donors subject to stipulations that the original gift be maintained permanently are shown as increases in permanently restricted net assets. Conditional promises 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. 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 unrestricted net assets in excess 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, 2017 and 2016, City Year authorized $1,340,000 and $530,000, respectively, for operations. The balance of board designated surplus available for appropriation as of June 30, 2017 and 2016 was $21,945,618 and $18,142,707, respectively.

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.

(d) Investments

Investments are reported at fair value. Shares in registered funds are based on published share values reported by the funds. The fair value of land held for investment are estimated based on appraisals and a broker opinion of value.

(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

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.

(j) Bond Issuance Costs

Bond issuance costs are deferred and recorded within other assets and are amortized over the contractual terms of the related bonds.

(k) 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.

(l) 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, 2017 and 2016.

(Continued)

(3) Temporarily Restricted Net Assets

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

		2017	2016
Time restrictions	$	11,533,513	12,797,968
Purpose restrictions		702,970	792,970
Board-designated endowment funds		3,361,118	3,261,118
Accumulated unspent return on endowment funds:			
Donor-restricted		1,538,789	1,040,665
Board-designated		718,013	317,491
Total		2,256,802	1,358,156
	$	17,854,403	18,210,212

Unexpended cash received from donors in fiscal year 2017 and 2016 for expenditures expected in subsequent fiscal years totaled $9,507,837 and $6,825,531, respectively.

(4) Permanently Restricted Net Assets

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

		2017	2016
Donor-restricted endowment funds – program sponsorships	$	6,181,653	6,081,653

(5) Net Assets Released from Restrictions

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

		2017	2016
Expiration of time restrictions	$	9,161,879	6,911,670
Satisfaction of purpose restrictions		250,000	1,799,056
	$	9,411,879	8,710,726

(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		2017	2016
Program services:			
Transportation and travel	$	1,013,947	663,576
Rent		147,400	210,296
Total program services		1,161,347	873,872
Support services:			
Professional services		439,065	708,296
Rent		36,850	52,574
Total support services		475,915	760,870
Total	$	1,637,262	1,634,742

(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.

City Year invests 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, 2017 and 2016:

		2017	2016
MAF (Level 1)	$	14,105,400	12,419,422
Total investments	$	14,105,400	12,419,422

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

		2017	2016
Dividends and interest	$	46,571	136,864
Realized and unrealized net gains (losses) on investments		1,439,407	(441,928)
Total return on investments	$	1,485,978	(305,064)

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

		2017	2016
Investment return utilized for operations	$	541,328	519,253
Realized gain on land investment		—	55,000
Investment return utilized for operations – nonoperating		46,004	(45,367)
Return on endowments not utilized – temporarily restricted		898,646	(833,950)
Total return on investments	$	1,485,978	(305,064)

(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.

(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, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	1,538,789	6,181,653	7,720,442
Board-designated endowment funds		2,305,827	4,079,131	—	6,384,958
Total	$	2,305,827	5,617,920	6,181,653	14,105,400

Endowment net assets consisted of the following at June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(45,367)	1,040,665	6,081,653	7,076,951
Board-designated endowment funds		1,763,862	3,578,609	—	5,342,471
Total	$	1,718,495	4,619,274	6,081,653	12,419,422

(Continued)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$	1,718,495	4,619,274	6,081,653	12,419,422
Investment return:					
Interest and dividends		—	46,571	—	46,571
Net apppreciation		46,004	1,393,403	—	1,439,407
Total investment return		46,004	1,439,974	—	1,485,978
Transfers in		541,328	—	—	541,328
Contributions		—	100,000	100,000	200,000
Endowment return appropriated		—	(541,328)	—	(541,328)
Endowment net assets, June 30, 2017	$	2,305,827	5,617,920	6,181,653	14,105,400

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$	1,244,609	5,208,224	5,981,653	12,434,486
Investment return:					
Interest and dividends		—	136,864	—	136,864
Net depreciation		(45,367)	(451,561)	—	(496,928)
Total investment return		(45,367)	(314,697)	—	(360,064)
Transfers in		519,253			519,253
Contributions		—	245,000	100,000	345,000
Endowment return appropriated		—	(519,253)	—	(519,253)
Endowment net assets, June 30, 2016	$	1,718,495	4,619,274	6,081,653	12,419,422

(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 $0 and $45,367 as of June 30, 2017 and 2016, 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 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 to appropriate distributions for operations of $541,328 in fiscal 2017 and $519,253 in fiscal 2016. 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:

		2017	2016
Unrestricted	$	678,667	939,363
Restricted to future periods		6,914,333	7,452,666
	$	7,593,000	8,392,029

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

	2017	2016
Due within one year	$ 7,260,000	4,884,696
Due within two to five years	333,000	3,507,333
	7,593,000	8,392,029
Less present value discount (ranging from 3.71% to 6.25%) and other allowances	(754,768)	(686,859)
	$ 6,838,232	7,705,170

(10) Property and Equipment

Property and equipment consisted of the following at June 30:

	2017	2016
Land	$ 4,884,000	4,884,000
Building	13,048,358	12,803,928
Furniture, fixtures and equipment	3,065,678	2,970,508
IT hardware and IT software	7,782,894	7,817,702
Leasehold improvements	1,953,045	1,775,710
	30,733,975	30,251,848
Less accumulated depreciation and amortization	(13,508,673)	(11,524,743)
	$ 17,225,302	18,727,105

(11) Federal Grants

City Year received grant awards from the Corporation for National and Community Service (CNCS) totaling $37,953,766 and $33,999,681 for fiscal years 2017 and 2016, respectively. The funds were awarded through the AmeriCorps program administered by CNCS. Funds expended and recognized as revenue in fiscal year 2017 and 2016 totaled $37,452,206 and $33,942,136, respectively.

The Organization's federal grant programs are subject to financial and compliance audits in accordance with Office of Management and Budget Circular Uniform Guidance 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.

(12) Leases

Rental expense for office space was $3,501,914 and $3,542,012 for the years ended June 30, 2017 and 2016, respectively, inclusive of certain in-kind arrangements. Lease arrangements with an original term of more than one year expire on various dates through 2026.

(Continued)

Future minimum lease payments under operating leases as of June 30, 2017 are as follows:

		Amount due
Fiscal years ending June 30:		
2018	$	3,673,661
2019		3,486,539
2020		3,258,036
2021		2,158,065
2022		1,492,029
Thereafter		4,866,367
	$	18,934,697

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 $6,000,000 credit facility (the Facility) with Bank of America, N.A. (BoA) maturing on March 30, 2018. The Facility is secured by all assets of the Organization, except for the portion of assets equal to the amount of permanently restricted net assets.

City Year 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. The Organization was in compliance with such covenants at June 30, 2017 and 2016. There were no borrowings under the Facility Line during the years ended June 30, 2017 and 2016.

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 January 26, 2018 but may renewed through of December 31, 2027. City Year purchased a certificate of deposit as collateral as required by the Security Agreement with BoA. The certificate of deposit is presented as restricted for future periods 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, and to pay certain costs of issuance totaling $114,718, which are included in other assets and are being amortized over the life of the new bonds. The bonds were purchased by Banc of America Public Capital Corp. as a Nonbank qualified tax exempt loan facility, with a put term of five years from the date of closing, May 7, 2013.

The bond matures through July 1, 2036 and bears interest at a tax exempt rate equal to 67% of the 30-day BBA LIBOR plus the Applicable Margin. The interest rate at June 30, 2017 and 2016 was 1.3038% and 0.9060%, respectively. The debt repayment schedule provides for principal payments beginning June 1, 2013 and continuing over the remainder of the term.

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. The 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, 2017 and 2016.

Aggregate scheduled annual principal repayments for bonds payable as of June 30, 2017 were as follows:

2018	$	225,000
2019		235,000
2020		245,000
2021		260,000
2022		265,000
Thereafter		5,895,000
Total	$	7,125,000

(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, 2017 and 2016:

Counterparty	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Liability fair value at June 30 2017	Liability fair value at June 30 2016
Bank of America, N.A.	07/01/06	07/01/26	$ 1,800,000	4.210%	$ (338,798)	(484,233)
Bank of America, N.A.	07/01/06	05/01/18	5,240,000	3.205%	(105,746)	(278,504)
			$ 7,040,000		$ (444,544)	(762,737)

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, 2017 and 2016 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, 2017 and 2016 were $318,193 and $25,882, 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, 2017 and 2016 were $1,515,623 and $1,406,350, 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, 2017 and 2016 of $173,667 and $150,022, 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, 2017 through October 27, 2017, which was the date the financial statements were issued. No subsequent events were noted.