



CITY YEAR, INC.

Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

Board of Trustees
City Year, Inc.:

Opinion

We have audited the financial statements of City Year, Inc. (the Organization), which comprise the statements of financial positions as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Boston, Massachusetts
December 23, 2022

CITY YEAR, INC.

Statements of Financial Position

June 30, 2022 and 2021

Assets	2022	2021
Cash and equivalents	\$ 48,496,706	35,189,579
Government grants receivable, net	18,041,762	15,766,175
Contributions receivable, net (note 9)	—	183,750
Other assets	3,319,098	3,941,042
Restricted cash (note 13)	169,801	169,801
Investments, at fair value (note 7)	20,991,074	24,708,415
Right-of-use asset	16,588,586	14,717,725
Property and equipment, net (note 10)	14,986,354	14,453,399
Total assets	<u>\$ 122,593,381</u>	<u>109,129,886</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,015,909	4,202,025
Accrued payroll and related expenses	7,344,874	9,452,885
Lease liability (note 12)	17,729,708	15,770,364
Interest rate swaps (note 14)	75,322	434,558
Bonds payable (note 14)	5,895,000	6,160,000
Total liabilities	<u>37,060,813</u>	<u>36,019,832</u>
Commitments and contingencies (notes 11, 12, and 14)		
Net assets:		
Without donor restrictions	66,992,653	46,083,525
With donor restrictions (note 4)	18,539,915	27,026,529
Total net assets	<u>85,532,568</u>	<u>73,110,054</u>
Total liabilities and net assets	<u>\$ 122,593,381</u>	<u>109,129,886</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Activities

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Changes in net assets without donor restrictions:		
Operations:		
Revenues and other support:		
Contributions of cash and other financial assets	\$ 88,304,841	67,554,327
Contributions of nonfinancial assets (note 6)	287,794	845,702
Federal grants – Corporation for National and Community Service (note 11)	48,182,850	47,737,956
School district and other government grants	37,761,753	37,277,964
Investment return utilized for operations (note 8)	845,020	728,287
Other income	193,400	213,097
Board designated surplus funds authorized for operations	5,519,000	9,040,829
Net assets released from restrictions (note 5)	<u>16,805,556</u>	<u>12,445,946</u>
Total operating revenues and other support	<u>197,900,214</u>	<u>175,844,108</u>
Expenses (note 6):		
Program services	138,331,472	141,582,759
Supporting services:		
Organizational support	15,535,725	13,970,155
Fundraising	<u>15,406,644</u>	<u>14,840,099</u>
Total expenses	<u>169,273,841</u>	<u>170,393,013</u>
Change in net assets without donor restrictions from operations	<u>28,626,373</u>	<u>5,451,095</u>
Nonoperating transactions:		
Board designated surplus funds authorized for operations	(5,519,000)	(9,040,829)
Investment return on endowments (note 7)	(2,154,093)	3,258,186
Investment return utilized for operations (note 8)	(542,478)	(354,048)
Unrealized net (loss)/gain on changes in fair value of interest-rate swaps (note 14)	<u>359,236</u>	<u>212,404</u>
Change in net assets without donor restrictions from nonoperating transactions	<u>(7,856,335)</u>	<u>(5,924,287)</u>
Change in net assets without donor restrictions	<u>20,770,038</u>	<u>(473,192)</u>
Changes in net assets with donor restrictions:		
Contributions of cash and other financial assets	10,444,655	13,156,762
Investment return on endowments (note 7)	(1,684,081)	2,814,543
Investment return utilized for operations (note 8)	(302,542)	(374,239)
Net assets released from restrictions (note 5)	<u>(16,805,556)</u>	<u>(12,445,946)</u>
Change in net assets with donor restrictions	<u>(8,347,524)</u>	<u>3,151,120</u>
Change in net assets	12,422,514	2,677,928
Net assets, beginning of year	<u>73,110,054</u>	<u>70,432,126</u>
Net assets, end of year	<u><u>\$ 85,532,568</u></u>	<u><u>73,110,054</u></u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2022

	<u>Program services</u>	<u>Organizational support</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses:				
Staff salaries	\$ 57,917,084	8,964,424	9,879,464	76,760,972
Corp member stipends	39,872,087	—	—	39,872,087
Payroll taxes and employee benefits	18,655,716	1,266,870	1,940,305	21,862,891
	<u>116,444,887</u>	<u>10,231,294</u>	<u>11,819,769</u>	<u>138,495,950</u>
Other expenses:				
Consulting and professional services	3,838,193	1,741,004	1,068,008	6,647,205
Transportation, travel, and lodging	1,476,360	36,112	69,681	1,582,153
Conferences and training seminars	250,766	19,734	12,664	283,164
Advertising and recruiting	4,149,110	186,475	79,615	4,415,200
Materials and supplies	3,096,347	55,692	1,237,270	4,389,309
Information technology	1,375,818	2,132,568	68,829	3,577,215
Telecommunications	527,657	34,035	19,601	581,293
Dues and fees	536,011	235,662	136,153	907,826
Occupancy and insurance	5,686,903	454,950	21,161	6,163,014
Event venue expense	275,000	3,070	869,948	1,148,018
Interest	96,336	133,035	—	229,371
Depreciation and amortization	578,084	272,094	3,945	854,123
	<u>21,886,585</u>	<u>5,304,431</u>	<u>3,586,875</u>	<u>30,777,891</u>
Total expenses	<u>\$ 138,331,472</u>	<u>15,535,725</u>	<u>15,406,644</u>	<u>169,273,841</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2021

	<u>Program services</u>	<u>Organizational support</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses:				
Staff salaries	\$ 56,355,576	6,897,397	11,190,615	74,443,588
Corp member stipends	47,389,624	—	—	47,389,624
Payroll taxes and employee benefits	18,888,398	1,240,217	2,113,762	22,242,377
	<u>122,633,598</u>	<u>8,137,614</u>	<u>13,304,377</u>	<u>144,075,589</u>
Other expenses:				
Consulting and professional services	4,414,046	2,384,241	542,107	7,340,394
Transportation, travel, and lodging	901,325	9,734	37,492	948,551
Conferences and training seminars	194,255	32,255	21,740	248,250
Advertising and recruiting	1,579,586	5,522	25,156	1,610,264
Materials and supplies	2,927,783	101,559	551,753	3,581,095
Information technology	1,484,380	1,964,532	49,855	3,498,767
Telecommunications	535,697	153,740	18,570	708,007
Dues and fees	571,099	253,515	160,454	985,068
Occupancy and insurance	5,656,113	548,089	21,370	6,225,572
Event venue expense	19,511	—	87,259	106,770
Interest	101,167	132,722	6,985	240,874
Depreciation and amortization	564,199	246,632	12,981	823,812
	<u>18,949,161</u>	<u>5,832,541</u>	<u>1,535,722</u>	<u>26,317,424</u>
Total expenses	<u>\$ 141,582,759</u>	<u>13,970,155</u>	<u>14,840,099</u>	<u>170,393,013</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 12,422,514	2,677,928
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	854,123	823,812
Realized and unrealized net loss (gain) on investments	3,838,174	(6,072,729)
Changes in fair value of interest-rate swaps	(359,236)	(212,404)
Contributions restricted for long-term investment	(37,500)	(87,500)
Changes in operating assets and liabilities:		
Government grants receivable, net	(2,275,587)	(1,976,290)
Contributions receivable, net	183,750	1,655,547
Other assets	621,944	(2,181,445)
Change in operating lease liabilities	88,483	84,560
Accounts payable and accrued expenses	1,813,884	2,305,443
Accrued payroll and related expenses	(2,108,011)	2,225,288
Net cash provided by (used in) operating activities	<u>15,042,538</u>	<u>(757,790)</u>
Cash flows from investing activities:		
Purchases of investments	(546,264)	(3,622,835)
Sales of investments	425,431	3,394,285
Purchases of equipment	(1,387,078)	(600,595)
Net cash used in investing activities	<u>(1,507,911)</u>	<u>(829,145)</u>
Cash flows from financing activities:		
Repayments of bond payable	(265,000)	(260,000)
Contributions restricted for long-term investment	37,500	87,500
Net cash used in financing activities	<u>(227,500)</u>	<u>(172,500)</u>
Change in cash and equivalents and restricted cash	13,307,127	(1,759,435)
Cash and equivalents and restricted cash, beginning of year	<u>35,359,380</u>	<u>37,118,815</u>
Cash and equivalents and restricted cash, end of year	<u>\$ 48,666,507</u>	<u>35,359,380</u>
Supplemental data:		
Cash paid for interest	\$ 231,811	241,650
Non-cash for lease liabilities arising from obtaining ROU assets	6,018,228	5,185,144

See accompanying notes to financial statements.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2022 and 2021

(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 United Kingdom to establish a second international City Year program with operations in London, Manchester, and Birmingham.

City Year's vision is to help students and schools succeed, while preparing the next generation of civically engaged leaders who can work across lines of difference. Partnering with teachers, diverse teams of City Year AmeriCorps members cultivate learning environments where all students can build on their strengths, fully engage in their learning, and thrive. City Year supports this vision in three primary ways:

- (a) The City Year youth service corps annually unites young people age 17–25 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 Restrictions – 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

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2022 and 2021

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 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 amount to \$11,780,978 and \$13,549,196 as of June 30, 2022 and 2021, respectively.

(b) Statement of Activities

The statement of activities reports 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, 2022 and 2021, City Year authorized \$5,519,000 and \$9,040,829, respectively, for operations. The balance of board designated surplus available for appropriation as of June 30, 2022 and 2021 was \$20,833,579 and \$16,335,633, respectively for the 29 City Year locations. With City Year Headquarters included, the balance of board designated surplus available for appropriation as of June 30, 2022 and 2021 was \$32,579,085 and \$11,905,544, 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

CITY YEAR, INC.

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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.

- 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 goods 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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 48,496,706	35,189,579
Restricted cash	169,801	169,801
Total cash, cash equivalents and restricted cash	<u>\$ 48,666,507</u>	<u>35,359,380</u>

(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) Leasing

City Year determines if an arrangement is a lease at inception. Operating leases as a lessee are included in right-of-use assets and lease obligations in the statement of financial position.

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term. Lease obligations represent City Year's liability to make lease payments arising from the lease. Operating lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate at the commencement date. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease cost for lease payments is recognized on a straight -line basis over the lease term.

(g) 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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2022 and 2021

(h) 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.

(i) 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.

(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.

(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, 2022 and 2021.

(m) Reclassifications

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

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2022 and 2021

(3) Financial Assets and Liquidity Resources

As of June 30, 2022, 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>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 44,888,303	33,961,599
Contributions receivable	—	183,750
Government grants receivables due in a year, net	18,041,762	15,766,175
Board designations:		
Future fiscal budgeted endowment payout	1,023,498	845,020
Total financial assets available within one year	<u>\$ 63,953,563</u>	<u>50,756,544</u>

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.

(4) Net Assets with Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Time restrictions	\$ 5,896,557	12,824,433
Purpose restrictions:		
School programs and education research	3,433,262	2,849,508
Challenge matching grant	—	123,370
Graduation awards	—	70,000
Endowments:		
School programs	7,037,681	8,518,782
Headquarters initiatives	2,158,877	2,623,972
Graduation awards	13,538	16,464
	<u>\$ 18,539,915</u>	<u>27,026,529</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2022 and 2021

(5) Net Assets Released from Restrictions

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

	<u>2022</u>	<u>2021</u>
Expiration of time restrictions	\$ 11,556,503	8,499,968
Satisfaction of purpose restrictions	5,249,053	3,945,978
	<u>\$ 16,805,556</u>	<u>12,445,946</u>

(6) Contributed Nonfinancial Assets

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities included:

	<u>2022</u>	<u>2021</u>
Services	\$ 287,794	845,702

City Year recognized contributed nonfinancial assets within revenue, including contributed services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed services recognized comprise professional services from attorneys advising City Year on various administrative legal matters in fiscal 2022 and 2021. Additional services of transportation and consulting were provided in fiscal 2021. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar services.

Contributed Nonfinancial Assets consisted of the following at June 30, 2022:

	<u>Revenue recognized</u>	<u>Revenue programs/activities</u>	<u>Donor restrictions</u>	<u>Valuation techniques and inputs</u>
Services	\$ 287,794	Various Administrative Legal Matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.

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Contributed Nonfinancial Assets consisted of the following at June 30, 2021:

	<u>Revenue recognized</u>	<u>Revenue programs/activities</u>	<u>Donor restrictions</u>	<u>Valuation techniques and inputs</u>
Services	\$ 584,077	Various Administrative Legal Matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.
	223,321	Administrative Consulting	No associated donor restrictions	Contributed services from consulting firm are valued at the estimated fair value based on current rates for similar consulting services.
	38,304	Transportation and Travel	No associated donor restrictions	Contributed services from transit company are valued at the estimated fair value based on current rates for similar transportation services.

(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.

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

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

The following table summarizes the classification of the Organization's investments in accordance with the fair value hierarchy as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Exchange Traded / Mutual Funds (Level 1):		
Global equity funds	\$ 7,990,807	10,116,861
Domestic equity fund	9,228,387	10,783,374
Domestic fixed income fund	3,371,592	3,621,895
Money market fund	400,288	186,285
Total investments	<u>\$ 20,991,074</u>	<u>24,708,415</u>

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

	<u>2022</u>	<u>2021</u>
Dividends and interest	\$ 515,965	442,944
Realized and unrealized net (loss) gain on investments	(4,354,139)	5,629,785
Total return on investments	<u>\$ (3,838,174)</u>	<u>6,072,729</u>

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

	<u>2022</u>	<u>2021</u>
Investment return on endowments – board designated	\$ (2,154,093)	3,258,186
Investment return on endowments – donor restricted	(1,684,081)	2,814,543
Total return on investments	<u>\$ (3,838,174)</u>	<u>6,072,729</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

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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 restrictions 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

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Endowment net assets consisted of the following at June 30, 2022:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds:			
Historical gift value	\$ —	7,039,255	7,039,255
Appreciation	—	2,170,841	2,170,841
Total donor-restricted endowment funds	—	9,210,096	9,210,096
Board-designated endowment funds	11,780,978	—	11,780,978
Total	\$ 11,780,978	9,210,096	20,991,074

Endowment net assets consisted of the following at June 30, 2021:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds:			
Historical gift value	\$ —	6,934,524	6,934,524
Appreciation	—	4,224,695	4,224,695
Total donor-restricted endowment funds	—	11,159,219	11,159,219
Board-designated endowment funds	13,549,196	—	13,549,196
Total	\$ 13,549,196	11,159,219	24,708,415

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Changes in endowment net assets for the year ended June 30, 2022 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2021	\$ 13,549,196	11,159,219	24,708,415
Investment return:			
Interest and dividends	287,752	228,213	515,965
Net appreciation	(2,441,845)	(1,912,294)	(4,354,139)
Total investment return	(2,154,093)	(1,684,081)	(3,838,174)
Transfers in	845,020	—	845,020
Contributions	83,333	37,500	120,833
Endowment return appropriated	(542,478)	(302,542)	(845,020)
Endowment net assets, June 30, 2022	\$ <u>11,780,978</u>	<u>9,210,096</u>	<u>20,991,074</u>

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2020	\$ 9,775,721	8,631,415	18,407,136
Investment return:			
Interest and dividends	239,376	203,568	442,944
Net appreciation	3,018,810	2,610,975	5,629,785
Total investment return	3,258,186	2,814,543	6,072,729
Transfers in	728,287	—	728,287
Contributions	141,050	87,500	228,550
Endowment return appropriated	(354,048)	(374,239)	(728,287)
Endowment net assets, June 30, 2021	\$ <u>13,549,196</u>	<u>11,159,219</u>	<u>24,708,415</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, 2022 and 2021, respectively.

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(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 \$845,020 in fiscal 2022 and \$728,287 in fiscal 2021. 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:

	<u>2022</u>	<u>2021</u>
Restricted to future periods	\$ —	195,000

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

	2022	2021
Due within one year	\$ —	195,000
Less present value discount (ranging from 2.87% to 7.99%) and other allowances	—	(11,250)
	<u>\$ —</u>	<u>183,750</u>

(10) Property and Equipment

Property and equipment consisted of the following at June 30:

	2022	2021
Land	\$ 4,884,000	4,884,000
Building	13,988,555	13,382,220
Furniture, fixtures and equipment	4,901,300	4,302,892
IT hardware and IT software	8,196,839	8,023,059
Leasehold improvements	1,969,772	2,135,227
	<u>33,940,466</u>	<u>32,727,398</u>
Less disposals on leasehold improvements	(913,000)	(165,456)
Less accumulated depreciation and amortization	(18,041,112)	(18,108,543)
	<u>\$ 14,986,354</u>	<u>14,453,399</u>

(11) Federal Grants

City Year received grant awards from AmeriCorps (formerly the Corporation for National and Community Service) totaling \$56,693,477 and \$48,829,420 for fiscal years 2022 and 2021, respectively. The funds were awarded through the AmeriCorps program State and National administered by AmeriCorps. Funds expended and recognized as revenue for the AmeriCorps program in fiscal year 2022 and 2021 totaled \$48,182,850 and \$47,737,956, respectively. City Year expended and recognized revenue for other federal programs totaling \$443,901 and \$697,564 in fiscal year 2022 and 2021, 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

Lease cost for office space was \$4,355,065 and \$4,530,773 for the years ended June 30, 2022 and 2021, respectively, inclusive of certain in-kind arrangements. Lease arrangements with an original term of more than one year expire on various dates through 2028.

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Future minimum lease payments under operating leases as of June 30, 2022 are as follows:

	<u>Amount due</u>
Fiscal years ending June 30:	
2023	\$ 4,269,920
2024	3,929,969
2025	3,492,259
2026	2,505,197
2027	1,814,175
Thereafter	<u>2,454,630</u>
	18,466,150
Less: Amounts representing interest	<u>(736,442)</u>
	<u>\$ 17,729,708</u>

The weighted average remaining lease term on leases commencing on or before June 30 was 60 months and 56 months fiscal years 2022 and 2021, respectively. The weighted average discount rate on leases commencing on or before June 30 was 1.40% and 1.41% for fiscal years 2022 and 2021, respectively. 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 10, 2023. 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, 2022 and 2021.

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 March 10, 2023 but may be 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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2022 and 2021

(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 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, 2022 and 2021 was 1.449% and 0.674%, 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 and March 25, 2021. 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, 2022 were as follows:

2023	\$	280,000
2024		295,000
2025		310,000
2026		325,000
2027		340,000
Thereafter		4,345,000
Total	\$	<u>5,895,000</u>

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(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, 2022 and 2021:

Counterparty	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Liability fair value at June 30	
					2022	2021
Bank of America, N.A.	07/01/06	07/01/26	\$ 1,470,000	4.2100 %	\$ (109,695)	(242,411)
Bank of America, N.A.	05/01/18	07/01/26	4,425,000	2.5540 %	34,373	(192,147)
			<u>\$ 5,895,000</u>		<u>\$ (75,322)</u>	<u>(434,558)</u>

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 net liability as of June 30, 2022 and 2021 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, 2022 and 2021 were \$359,236 and \$212,404, 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 4% of eligible compensation each pay period. Employer matching contributions for the years ended June 30, 2022 and 2021 were \$1,998,516 and \$2,032,866, 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 Plan is immaterial to the financial statements.

(16) Affiliations

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

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Notes to Financial Statements

June 30, 2022 and 2021

(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, 2022 through December 23, 2022, which was the date the financial statements were issued. No subsequent events were noted.