



CITY YEAR, INC.

Independent Auditors' Reports as Required by Title 2 U.S. Code of
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost
Principles and Audit Requirements for Federal Awards* and
Government Auditing Standards and Related Information

Year Ended June 30, 2017

(With Independent Auditors' Reports Thereon)

CITY YEAR, INC.

Independent Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards and Government Auditing Standards* and Related Information

Year ended June 30, 2017

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KPMG LLP
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60 South Street
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Exhibit I

**Independent Auditors' Report on Compliance for the Major Program
and Report on Internal Control over Compliance Required by Uniform Guidance**

The Board of Trustees
City Year, Inc.:

Report on Compliance for the Major Federal Program

We have audited City Year, Inc.'s (City Year's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on City Year's major federal program for the year ended June 30, 2017. City Year's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for City Year's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City Year's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of City Year's compliance.

Opinion on the Federal Program

In our opinion, City Year complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.



Report on Internal Control Over Compliance

Management of City Year is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City Year's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City Year's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

November 9, 2017



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

Exhibit II

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
City Year, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of City Year, Inc. (City Year), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City Year's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City Year's internal control. Accordingly, we do not express an opinion on the effectiveness of City Year's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of City Year's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City Year's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City Year's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Year's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 27, 2017

CITY YEAR, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to the financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of The Uniform Guidance?

_____ Yes X No

Identification of major programs:

CFDA number

AmeriCorps Program

94.006

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,200,020

Auditee qualified as low-risk auditee:

 X Yes _____ No

CITY YEAR, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.



Other Matter – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying Supplemental Schedule of Compensation, Benefits, and Other Payments to Agency Head for the year ended June 30, 2017 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the City Year's financial statements and, accordingly, we do not express an opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017 on our consideration of City Year's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Year's internal control over financial reporting and compliance.

KPMG LLP

October 27, 2017, except as to the supplementary schedule of expenditures of federal awards, which is as of November 9, 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	<u>9,507,837</u>	<u>6,825,531</u>
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)	<u>17,225,302</u>	<u>18,727,105</u>
Total assets	<u>\$ 81,195,861</u>	<u>78,190,205</u>
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)	<u>7,125,000</u>	<u>7,385,000</u>
Total liabilities	<u>15,114,542</u>	<u>15,239,818</u>
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)	<u>6,181,653</u>	<u>6,081,653</u>
Total net assets	<u>66,081,319</u>	<u>62,950,387</u>
Total liabilities and net assets	<u>\$ 81,195,861</u>	<u>78,190,205</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Activities

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
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)	<u>9,411,879</u>	<u>8,710,726</u>
Total operating revenues and other support	<u>155,324,949</u>	<u>147,620,858</u>
Expenses (note 6):		
Program services	120,102,565	112,341,515
Supporting services:		
Organizational support	14,351,324	14,085,772
Fundraising	<u>16,508,516</u>	<u>16,514,772</u>
Total expenses	<u>150,962,405</u>	<u>142,942,059</u>
Change in unrestricted net assets from operations	<u>4,362,544</u>	<u>4,678,799</u>
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)	<u>318,193</u>	<u>25,882</u>
Change in unrestricted net assets from nonoperating transactions	<u>(975,803)</u>	<u>(549,485)</u>
Change in unrestricted net assets	<u>3,386,741</u>	<u>4,129,314</u>
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)	<u>(9,411,879)</u>	<u>(8,710,726)</u>
Change in temporarily restricted net assets	<u>(355,809)</u>	<u>956,936</u>
Changes in permanently restricted net assets:		
Contributions	<u>100,000</u>	<u>100,000</u>
Change in permanently restricted net assets	<u>100,000</u>	<u>100,000</u>
Change in net assets	3,130,932	5,186,250
Net assets, beginning of year	<u>62,950,387</u>	<u>57,764,137</u>
Net assets, end of year	<u>\$ 66,081,319</u>	<u>62,950,387</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2017

	<u>Program services</u>	<u>Organizational support</u>	<u>Fundraising</u>	<u>Total</u>
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
	<u>96,424,177</u>	<u>7,983,128</u>	<u>11,745,883</u>	<u>116,153,188</u>
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
	<u>23,678,388</u>	<u>6,368,196</u>	<u>4,762,633</u>	<u>34,809,217</u>
Total expenses	\$ <u>120,102,565</u>	<u>14,351,324</u>	<u>16,508,516</u>	<u>150,962,405</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statement of Functional Expenses

Year ended June 30, 2016

	<u>Program services</u>	<u>Organizational support</u>	<u>Fundraising</u>	<u>Total</u>
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
	<u>90,642,480</u>	<u>6,997,924</u>	<u>11,530,198</u>	<u>109,170,602</u>
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
	<u>21,699,035</u>	<u>7,087,848</u>	<u>4,984,574</u>	<u>33,771,457</u>
Total expenses	\$ <u>112,341,515</u>	<u>14,085,772</u>	<u>16,514,772</u>	<u>142,942,059</u>

See accompanying notes to financial statements.

CITY YEAR, INC.

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
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	<u>3,580,386</u>	<u>4,008,943</u>
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	<u>(836,372)</u>	<u>(476,288)</u>
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	<u>(160,000)</u>	<u>(150,000)</u>
Net increase in cash and equivalents	2,584,014	3,382,655
Cash and equivalents, beginning of year	<u>27,760,240</u>	<u>24,377,585</u>
Cash and equivalents, end of year	<u>\$ 30,344,254</u>	<u>27,760,240</u>
Supplemental data:		
Cash paid for interest	\$ 297,479	308,023

See accompanying notes to financial statements.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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,

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(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.

CITY YEAR, INC.

Notes to Financial Statements

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(3) Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
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	<u>718,013</u>	<u>317,491</u>
Total	<u>2,256,802</u>	<u>1,358,156</u>
	<u>\$ 17,854,403</u>	<u>18,210,212</u>

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:

	<u>2017</u>	<u>2016</u>
Donor-restricted endowment funds – program sponsorships	\$ <u>6,181,653</u>	<u>6,081,653</u>

(5) Net Assets Released from Restrictions

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

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

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(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	<u>147,400</u>	<u>210,296</u>
Total program services	<u>1,161,347</u>	<u>873,872</u>
Support services:		
Professional services	439,065	708,296
Rent	<u>36,850</u>	<u>52,574</u>
Total support services	<u>475,915</u>	<u>760,870</u>
Total	<u>\$ 1,637,262</u>	<u>1,634,742</u>

(7) Investments

GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy 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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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:

	<u>2017</u>	<u>2016</u>
MAF (Level 1)	\$ 14,105,400	12,419,422
Total investments	<u>\$ 14,105,400</u>	<u>12,419,422</u>

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

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

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

	<u>2017</u>	<u>2016</u>
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	<u>898,646</u>	<u>(833,950)</u>
Total return on investments	<u>\$ 1,485,978</u>	<u>(305,064)</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 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

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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:

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

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

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

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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 appreciation	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	\$ <u>2,305,827</u>	<u>5,617,920</u>	<u>6,181,653</u>	<u>14,105,400</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	\$ <u>1,718,495</u>	<u>4,619,274</u>	<u>6,081,653</u>	<u>12,419,422</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(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.

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(9) Contributions Receivable

Contributions receivable consisted of the following at June 30:

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

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

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

(10) Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
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	<u>1,953,045</u>	<u>1,775,710</u>
	30,733,975	30,251,848
Less accumulated depreciation and amortization	<u>(13,508,673)</u>	<u>(11,524,743)</u>
	<u>\$ 17,225,302</u>	<u>18,727,105</u>

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(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.

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

	<u>Amount due</u>
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	<u>4,866,367</u>
	<u>\$ 18,934,697</u>

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

CITY YEAR, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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.

CITY YEAR, INC.

Notes to Financial Statements

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		<u>5,895,000</u>
Total	\$	<u>7,125,000</u>

(b) Interest Rate Swaps

City Year has two interest rate swap agreements with BoA to mitigate its exposure to variability in interest payments on the bonds payable. The terms of the swap agreements were as follows at June 30, 2017 and 2016:

Counterparty	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Liability fair value at June 30	
					2017	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	<u>5,240,000</u>	3.205%	<u>(105,746)</u>	<u>(278,504)</u>
			<u>\$ 7,040,000</u>		<u>\$ (444,544)</u>	<u>(762,737)</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 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, INC.

Notes to Financial Statements

June 30, 2017 and 2016

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.

CITY YEAR, INC.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Federal grantor/pass-through program/program title	Federal CFDA number	Federal expenditures
Corporation for National Service:		
AmeriCorps Program:		
Direct Funding:		
#15NDHMA001	94.006	\$ 8,941,992
#16NDHMA002	94.006	2,786,243
Passed through the Massachusetts Service Alliance		
#15ACHMA0010002 (Competitive)	94.006	2,746,701
#16ESHMA002001 (Formula)	94.006	351,000
Passed through the Department of Labor and Industry – Penn Serve		
#15ACHPA0010001 (Competitive)	94.006	2,480,500
Passed through the Ohio Governor’s Community Service Council		
#15ACHOH0010002 (Columbus)	94.006	403,405
#15ACHOH0010001 (Cleveland)	94.006	560,284
Passed through the Michigan Department of Human Services		
#MACF-17-82349	94.006	859,100
Passed through California Volunteers		
#15ACHCA0020008 (LA Competitive)	94.006	2,500,000
#14AFHCA0010058 (LA Formula)	94.006	338,914
#15ACHCA0020016 (Sacramento)	94.006	849,984
Passed through the Illinois Department of Human Services		
#14ACHIL0010001	94.006	2,274,799
Passed through Volunteer NH		
#13AFHNNH0010004 (Competitive)	94.006	605,000
#12ACHNNH0010001 (Formula)	94.006	320,351
Passed through DC Serves		
#16ESHDC0010001– Competitive	94.006	1,464,070
Passed through the OneStar Foundation		
#15ACHTX0010004 Competitive (San Antonio and Dallas)	94.006	1,403,600
#14ESHTX0010001 (Dallas)	94.006	543,732
Passed through the United Way Commission for National & Community Service		
#15ESHSC0010001	94.006	289,368
Passed through the Louisiana Serve Commission		
#15ACHLA0010001 – Competitive Grant	94.006	1,318,900
Passed through Missouri Community Service Commission		
#14AFHMO0010024 – Competitive Grant	94.006	121,002
Passed through the Oklahoma Community Service Commission		
#14ESHOK0010001	94.006	555,607
Passed through the Serve Colorado		
#15AFHCO0010011	94.006	525,180
Passed through the Serve Rhode Island		
#16ACHRI0020002	94.006	726,000
Passed through the Serve Washington, State of Washington		
#16ESHWA0020001	94.006	324,017
Passed through Volunteer Florida		
#15ACHFL0020004– Competitive (Miami)	94.006	1,298,642
#16ESHFL0010004 – Formula (Miami)	94.006	764,095
#16ESHFL0010002 – Formula (Orlando)	94.006	212,089
#15ACHFL0010002 – Competitive (Orlando)	94.006	598,067
#15ACHFL0020003 (Jacksonville)	94.006	1,148,273
Passed through Volunteer Tennessee		
#16ESHTN0020002	94.006	185,235
Total AmeriCorps Program		<u>37,496,150</u>

CITY YEAR, INC.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Federal grantor/pass-through program/program title	Federal CFDA number	Federal expenditures
U.S. Department of Economic Opportunity		
Temporary Assistance for Needy Families Cluster (TANF):		
Passed through Franklin County Department of Job and Family Services	93.558	\$ 94,411
Total Temporary Assistance for Needy Families Cluster		<u>94,411</u>
U.S. Department of Housing and Urban Development:		
Community Development Block Grants/Entitlement Grants Cluster (CDBG):		
Passed through the City of Manchester, New Hampshire	14.218	150,000
Passed through the City of Providence, Rhode Island	14.218	25,000
Total Community Development Block Grants/Entitlement Grants Cluster		<u>175,000</u>
U.S. Department of Education		
Promise Neighborhood		
Passed through DC Promise Neighborhood Initiative: Five Promises for Two Generations	84.215	100,000
Total Promise Neighborhood		<u>100,000</u>
Gaining Early Awareness and Readiness for Undergraduate Programs		
Passed through Philadelphia School System	84.334	627,500
Total Gaining Early Awareness and Readiness for Undergraduate Programs		<u>627,500</u>
Title I Grants to Local Educational Agencies		
Passed through Philadelphia School System	84.010	757,620
Total Title I Grants to Local Educational Agencies		<u>757,620</u>
U.S. Department of Justice		
Juvenile Mentoring Program		
Passed through 2016-JU-FX-0006	16.726	750,000
Total Juvenile Mentoring Program		<u>750,000</u>
Total expenditures of federal awards		<u>\$ 40,000,681</u>

See accompanying independent auditors' report

CITY YEAR, INC.

Notes to Schedule of Expenditure of Federal Awards

Year ended June 30, 2017

(1) Definition of Reporting Entity

The accompanying schedule of expenditures of federal awards presents expenditures of all federal awards programs of City Year, Inc. (City Year), whether received directly from Federal agencies or passed through other entities.

(2) Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented using on the accrual basis of accounting and in accordance with the requirements of Uniform Guidance. City Year elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

(3) Subrecipient Payments

City Year did not pass through awards to subrecipients during fiscal year 2017.

CITY YEAR, INC.

Supplemental Schedule of Compensation, Benefits, and Other Payments to Agency Head

(Unaudited)

Year ended June 30, 2017

Agency Head Name: Michael Brown, Chief Executive Officer

Purpose	Amount
Salary	\$ —
Benefits – insurance	—
Benefits – retirement	—
Benefits – other	—
Car allowance	—
Vehicle provided by government	—
Per diem	—
Reimbursements	—
Travel	—
Registration fees	—
Conference travel	—
Continuing professional education fees	—
Housing	—
Unvouchered expenses	—
Special Meals	—
Other	—
Total	\$ —

In accordance with the State of Louisiana regulation R.S. 24:513(A)(3), this schedule represents public funds utilized for the compensation, benefits, and other payments to the Agency Head.

See accompanying independent auditors' report.



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

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Trustees
City Year, Inc.:

We have performed the procedures enumerated below, which were agreed to by the audit committee and management of City Year, Inc., (City Year) and the Louisiana Legislative Auditor, related to public monies City Year received from local Louisiana entities or the State of Louisiana for the fiscal year ended June 30, 2017. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

Organizational Background

City Year operates in twenty-seven locations across the United States, including Baton Rouge and New Orleans, Louisiana. For the fiscal year ended June 30, 2017, City Year recorded expenses totaling approximately \$4.6 million related to the operations of these Louisiana locations which represent approximately 3% of City Year's total fiscal 2017 expenses. To the extent the below procedures relate specifically to City Year's Baton Rouge and/or New Orleans operations or generally to City Year's overall corporate governance, those procedures were deemed applicable, otherwise they were deemed not applicable.

Our procedures and finding are as follows:

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget.
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving.
 - d) **Receipts**, including receiving, recording, and preparing deposits.
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
 - f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
 - g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.



- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofits.
- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

RESULTS: We obtained the written policies and procedures noting each addressed the applicable financial or business function except for item i) Ethics, which is not applicable to nonprofit entities.

Board (or Finance Committee, if Applicable)

- 2. Obtain and review the board/committee minutes for the fiscal period, and:
 - a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.
 - b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
 - i) If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.
 - c) Report whether the minutes referenced or included nonbudgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

RESULTS: The Board of Trustees and Finance Committee meets four times annually. We inspected the fiscal 2017 minutes of these committees which include references to budget-to-actual comparisons. Within the minutes, there is no discussion of City Year having a deficit spending during the fiscal period. The minutes also referenced nonbudgetary financial information during the fiscal period.

Bank Reconciliations

- 3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

RESULTS: We obtained a listing of all bank accounts maintained by City Year and a representation from management that the listing was complete.



4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
 - a) Bank reconciliations have been prepared;
 - b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
 - c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

RESULTS: City Year does not maintain separate bank accounts for its Louisiana sites. City Year's cash accounts were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's cash accounts were noted during the fiscal 2017 audit.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

RESULTS: City Year requires all cash collections to be processed by its corporate headquarters in Boston, Massachusetts. Accordingly, the Louisiana sites do not process any cash collections. City Year's cash collections were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's cash collections were noted during the fiscal 2017 audit.
6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each cash collection location selected:
 - a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
 - b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.



- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
 - i) Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
 - ii) Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

RESULTS: City Year requires all cash collections to be processed by its corporate headquarters in Boston, Massachusetts. Accordingly, the Louisiana sites do not process any cash collections. City Year's cash collections were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's cash collections were noted during the fiscal 2017 audit.

- 7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

RESULTS: We obtained the written policies and procedures related to collections, which are processed and maintained at City Year's corporate headquarters. Based on the policy, City Year has procedures for monthly bank reconciliations which are prepared and reviewed by personnel who are not responsible for processing cash collections. City Year's bank reconciliations were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's cash collections were noted during the fiscal 2017 audit.

Disbursements – General (Excluding Credit Card/Debit Card/Fuel Card/P-Card Purchases or Payments)

- 8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

RESULTS: City Year requires all disbursements to be processed by its corporate headquarters in Boston, Massachusetts. Accordingly, the Louisiana sites do not process any disbursements. City Year's disbursements were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's disbursements were noted during the fiscal 2017 audit.

- 9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
 - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
 - b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.



- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

RESULTS: City Year requires all disbursements to be processed by its corporate headquarters in Boston, Massachusetts. Accordingly, the Louisiana sites do not process any disbursements. City Year's disbursements were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's disbursements were noted during the fiscal 2017 audit.

- 10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

RESULTS: We obtained the written policies and procedures related to disbursements, which are processed and maintained at City Year's corporate headquarters. Based on the policy, City Year notes employees who process payments are prohibited from adding vendors to City Year's purchasing/disbursement system. City Year's disbursements were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's disbursements were noted during the fiscal 2017 audit.

- 11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

RESULTS: We obtained the written policies and procedures related to disbursements, which are processed and maintained at City Year's corporate headquarters. Based on the policy, City Year notes employees with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases. City Year's disbursements were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's disbursements were noted during the fiscal 2017 audit.

- 12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

RESULTS: City Year requires all disbursements to be processed by its corporate headquarters in Boston, Massachusetts. Accordingly, the Louisiana sites do not process any disbursements. City Year's disbursements were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's disbursements were noted during the fiscal 2017 audit.

- 13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

RESULTS: City Year requires all disbursements to be processed by its corporate headquarters in Boston, Massachusetts. Accordingly, the Louisiana sites do not process any disbursements. City Year's disbursements were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's disbursements were noted during the fiscal 2017 audit.



Credit Cards/Debit Cards/Fuel Cards/P-Cards

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

RESULTS: We obtained a listing of all the Louisiana site's active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. We obtained management's representation that the listing is complete.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]
- b) Report whether finance charges and/or late fees were assessed on the selected statements.

RESULTS: From the listing prepared by management we selected one credit card from the Baton Rouge site and one credit card from the New Orleans site, which combined represent at least one-third of the cards from Louisiana since these sites have less than 10 cards combined. We noted there were no changes in practitioners during the fiscal year. We selected the credit card held by the Baton Rouge employee 110297 and the New Orleans employee 350214. For each credit card, we obtained the monthly statements and selected the monthly statement with the largest dollar activity for each card. We inspected evidence that the monthly statement was reviewed and approved, in writing, by someone other than the authorized card holder. Also we noted no finance charges or late fees were assessed on the selected statements.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).
- a) For each transaction, report whether the transaction is supported by:
 - i) An original itemized receipt (i.e., identifies precisely what was purchased)
 - ii) Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - iii) Other documentation that may be required by written policy (e.g., purchase order, written authorization.)



- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.
- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or nonbusiness purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

RESULTS: Using the monthly statements selected under #15 above, we obtain supporting documentation for all transactions for each of the 2 credit cards selected. For each transaction, we noted the transaction was supported by an original itemized receipt and documentation of the business/public purpose. We compared the transaction's detail to City Year's written purchasing/disbursement policies and the Louisiana Public Bid Law. No exceptions were noted. We compared City Year's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution. No exceptions were noted.

Travel and Expense Reimbursement

- 17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

RESULTS: We obtained a listing of all of the Louisiana site's travel and related expense reimbursements, by person, during the fiscal period for travel reimbursements. We obtained management's representation that the listing or general ledger is complete.

- 18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

RESULTS: We obtained the City Year's policies related to travel and expense reimbursements and compared the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov). No exceptions were noted.

- 19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:
 - a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.
 - b) Report whether each expense is supported by:
 - i) An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]



- ii) Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
 - iii) Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)
- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.
- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

RESULTS: Using the listing or general ledger from #17 above, we selected the three individuals from the Louisiana sites who incurred the most travel costs during the fiscal period. For individuals, employee 357496, 359500, and 359344, we obtained the expense reimbursement reports for, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected we compared expense documentation to written policies and noted all were in accordance with written policy. We noted each expense was supported by an original itemized receipt that identifies precisely what was purchased and documentation of the business/public purpose. We compared City Year's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions. We noted each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement. No exceptions were noted.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

RESULTS: For fiscal 2017, there were no contracts in effect specific to City Year's Baton Rouge or New Orleans operations. City Year's overall disbursements were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's disbursements were noted during the fiscal 2017 audit.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:
- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.
 - b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
 - i) If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)



- ii) If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.
- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.
- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

RESULTS: For fiscal 2017, there were no contracts in effect specific to City Year's Baton Rouge or New Orleans operations. City Year's overall disbursements were subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's disbursements were noted during the fiscal 2017 audit.

Payroll and Personnel

22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:
- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
 - b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

RESULTS: We obtained a listing of employees from the Louisiana sites with their related salaries, and obtain management's representation that the listing is complete. For the five employees selected, we obtain their personnel files, and inspected the compensation paid to each employee during the fiscal period noting each was in strict accordance with the terms and conditions of the employment contract or pay rate structure. We noted all changes made to hourly pay rates/salaries during the fiscal period were approved in writing and in accordance with written policy.

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:
- a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
 - b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
 - c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.



RESULTS: We obtained attendance and leave records for the Louisiana sites and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, we randomly select 3 employees, as this represents one-third of employees as City Year had less than 25 employees at its Louisiana sites during the fiscal period. We noted each selected employee, 106759, 105048, and 353365, documented their daily attendance and leave. All written documentation approved by supervisors, electronically or in writing.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

RESULTS: We obtained from management a list of terminated employees during the fiscal period for the Louisiana sites and management's representation that the list is complete. We select the two largest termination payments made during the fiscal period and obtained the personnel files for each employee. For employees 359828 and 112688, we noted the termination payments were made in strict accordance with policy and/or contract and approved by management.

25. Obtain supporting documentation (e.g. canceled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

RESULTS: As all payroll taxes and deductions are maintained and monitored at City Year's Headquarters, this procedure was not applicable. City Year's overall payroll process was subject to audit as part of its fiscal 2017 audit. No control deficiencies related to City Year's payroll process were noted during the fiscal 2017 audit.

Ethics (Excluding Nonprofits)

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

RESULTS: Procedure not applicable as this excludes nonprofit entities.

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

RESULTS: Procedure not applicable as this excludes nonprofit entities.

Debt Service (Excluding Nonprofits)

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

RESULTS: Procedure not applicable as this excludes nonprofit entities.



29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

RESULTS: Procedure not applicable as this excludes nonprofit entities.

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

RESULTS: Procedure not applicable as this excludes nonprofit entities.

Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

RESULTS: We inquired of management whether City Year had any misappropriations of public funds or assets. Management noted there was no misappropriation of public funds or assets during the fiscal year.

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

RESULTS: We observed and noted City Year has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

RESULTS: We have not observed or otherwise identified any exceptions regarding management's representations in the procedures above.

* * * * *

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on public monies City Year received from local Louisiana entities or the State of Louisiana for the fiscal year ended June 30, 2017. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of audit committee and management of City Year and the Louisiana Legislative Auditor, and is not intended to be and should not be used by anyone other than the specified parties.

KPMG LLP

November 21, 2017