

Audited Financial Statements



December 31, 2020

Quigley & Miron

Chrysalis Center
Audited Financial Statements
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December 31, 2020

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Independent Auditor's Report

Board of Directors
Chrysalis Center
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying statement of financial position of Chrysalis Center (Organization), a nonprofit organization, as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 accounting principles generally accepted in the United States of America, including 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

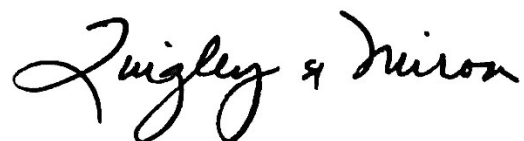
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chrysalis Center as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Chrysalis Center's December 31, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, reading "Zwigley & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California
September 17, 2021

Chrysalis Center
Statement of Financial Position
December 31, 2020
(with comparative totals for 2019)

| | 2020 | 2019 |
|-------------------------------------------------------------------|----------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 3,834,810 | \$ 1,520,114 |
| Grants receivable | 209,799 | 350,782 |
| Accounts receivable, net—Note 3 | 6,063,262 | 3,356,508 |
| Right-of-use to in-kind facilities—Note 4 | 146,580 | 73,290 |
| Prepaid expenses | 428,462 | 326,843 |
| Total Current Assets | 10,682,913 | 5,627,537 |
| Non-Current Assets | | |
| Right-of-use to in-kind facilities, non-current portion—Note 4 | 64,220 | |
| Deposits | 127,970 | 127,970 |
| Property and equipment, net—Note 6 | 2,705,561 | 3,244,182 |
| Total Non-Current Assets | 2,897,751 | 3,372,152 |
| Total Assets | \$ 13,580,664 | \$ 8,999,689 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 263,010 | \$ 285,935 |
| Accrued expenses—Note 4 | 1,400,675 | 626,938 |
| Deferred revenue | 230,113 | 264,643 |
| Total Liabilities | 1,893,798 | 1,177,516 |
| Commitments and Contingencies—Note 4 | | |
| Net Assets | | |
| Without donor restrictions—Note 7 | | |
| Undesignated | 9,307,546 | 5,851,950 |
| Board-designated Reserve and Capital Improvement Fund | 1,318,651 | 1,318,651 |
| Total Net Assets without Donor Restrictions | 10,626,197 | 7,170,601 |
| With donor restrictions—Note 8 | 1,060,669 | 651,572 |
| Total Net Assets | 11,686,866 | 7,822,173 |
| Total Liabilities and Net Assets | \$ 13,580,664 | \$ 8,999,689 |

See notes to financial statements.

Chrysalis Center
Statement of Activities
Year Ended December 31, 2020
(with comparative totals for 2019)

| | Without Donor Restrictions | With Donor Restrictions | 2020 Total | 2019 Total |
|----------------------------------------------------------------------------------|-------------------------------|----------------------------|----------------------|---------------------|
| Operating Activities | | | | |
| Public Support | | | | |
| Contributions | \$ 2,971,168 | \$ | \$ 2,971,168 | \$ 2,584,659 |
| Foundations and corporations | 2,275,417 | 1,820,000 | 4,095,417 | 2,740,298 |
| SBA PPP grant—Note 10 | | 3,467,600 | 3,467,600 | |
| Governmental agencies | 2,888,727 | 335,452 | 3,224,179 | 3,076,437 |
| In-kind contributions—Note 1 | 242,482 | 284,090 | 526,572 | 293,884 |
| Special events | | | | |
| Gross revenue | 517,538 | | 517,538 | 1,662,947 |
| Less cost of direct benefits to donors | (14,630) | | (14,630) | (538,541) |
| Special Events, Net | 502,908 | | 502,908 | 1,124,406 |
| Total Public Support | 8,880,702 | 5,907,142 | 14,787,844 | 9,819,684 |
| Revenue | | | | |
| Chrysalis Enterprises | 24,711,958 | | 24,711,958 | 18,340,848 |
| Interest and other income | 46,425 | | 46,425 | 16,730 |
| Total Revenue | 24,758,383 | | 24,758,383 | 18,357,578 |
| Reclassifications | | | | |
| Net assets released from restrictions | 5,498,045 | (5,498,045) | | |
| Total Reclassifications | 5,498,045 | (5,498,045) | | |
| Total Public Support, Revenue, and Net Assets After Reclassifications | 39,137,130 | 409,097 | 39,546,227 | 28,177,262 |
| Expenses | | | | |
| Employment services | | | | |
| Employment | 6,592,371 | | 6,592,371 | 8,262,081 |
| Chrysalis Enterprises | 24,501,330 | | 24,501,330 | 18,080,823 |
| Total Employment Services | 31,093,701 | | 31,093,701 | 26,342,904 |
| Supporting services | | | | |
| Management and general | 3,144,769 | | 3,144,769 | 1,044,666 |
| Fundraising | 1,443,064 | | 1,443,064 | 1,414,394 |
| Total Supporting Services | 4,587,833 | | 4,587,833 | 2,459,060 |
| Total Expenses | 35,681,534 | | 35,681,534 | 28,801,964 |
| Change in Net Assets | 3,455,596 | 409,097 | 3,864,693 | (624,702) |
| Net Assets at Beginning of Year | 7,170,601 | 651,572 | 7,822,173 | 8,446,875 |
| Net Assets at End of Year | \$ 10,626,197 | \$ 1,060,669 | \$ 11,686,866 | \$ 7,822,173 |

See notes to financial statements.

Chrysalis Center
Statement of Functional Expenses
Year Ended December 31, 2020
(with comparative totals for 2019)

| | Employment Services | | | Supporting Services | | | 2020 Total | 2019 Total |
|--------------------------------------------------------------------------------------|---------------------|--------------------------|----------------------|---------------------------|---------------------|-------------------|----------------------|----------------------|
| | Employment | Chrysalis Enterprises | Total | Management and General | Fundraising | Special Events | | |
| Chrysalis Enterprises | | | | | | | | |
| Insurance and registration | \$ | \$ 519,684 | \$ 519,684 | \$ | \$ | \$ | \$ 519,684 | \$ 414,999 |
| Outside services | | 394,629 | 394,629 | | | | 394,629 | 182,470 |
| Payroll and related — | | | | | | | | |
| Transitional Program | | 17,252,014 | 17,252,014 | | | | 17,252,014 | 12,206,192 |
| Supplies and materials | | 629,714 | 629,714 | | | | 629,714 | 481,806 |
| Vehicle rental and maintenance | | 746,015 | 746,015 | | | | 746,015 | 773,471 |
| Waste management | | 275,317 | 275,317 | | | | 275,317 | 447,953 |
| Client services | | | | | | | | |
| Clothing | 21,834 | 84,712 | 106,546 | | | | 106,546 | 262,485 |
| Curriculum | 11,641 | | 11,641 | | | | 11,641 | 20,901 |
| Food | | | | | | | | |
| Personal development | 764,230 | 2,440 | 766,670 | | | | 766,670 | 396,695 |
| Transportation | 140,493 | 122,329 | 262,822 | | | | 262,822 | 94,607 |
| Cost of direct benefits to donors | | | | | | 14,630 | 14,630 | 538,541 |
| Depreciation | 370,096 | 33,475 | 403,571 | 122,237 | 17,725 | | 543,533 | 681,969 |
| Facilities | 197,290 | 713,443 | 910,733 | 13,967 | 2,079 | | 926,779 | 1,158,358 |
| Insurance and utilities | 276,258 | 100,077 | 376,335 | 171,468 | 35,174 | | 582,977 | 517,021 |
| Other operating expenses | 220,413 | 219,238 | 439,651 | 273,605 | 64,840 | | 778,096 | 944,662 |
| Payroll and related | 4,512,493 | 3,317,039 | 7,829,532 | 1,614,147 | 1,248,883 | | 10,692,562 | 9,756,307 |
| Postage and mailings | 8,143 | 13,506 | 21,649 | 5,904 | 22,776 | | 50,329 | 64,284 |
| Professional fees and outside services | 48,407 | 56,982 | 105,389 | 922,543 | 37,645 | | 1,065,577 | 205,261 |
| Publicity, travel, and entertainment | 21,073 | 20,716 | 41,789 | 20,898 | 13,942 | | 76,629 | 192,523 |
| Total Expenses by Function | 6,592,371 | 24,501,330 | 31,093,701 | 3,144,769 | 1,443,064 | 14,630 | 35,696,164 | 29,340,505 |
| Less expenses included with revenues on the statement of activities | | | | | | | | |
| Cost of direct benefits to donors | | | | | | (14,630) | (14,630) | (538,541) |
| Total Expenses Included in Expense Section of the Statement of Activities | \$ 6,592,371 | \$ 24,501,330 | \$ 31,093,701 | \$ 3,144,769 | \$ 1,443,064 | \$ | \$ 35,681,534 | \$ 28,801,964 |
| Percentage of Total Expenses | <u>18%</u> | <u>69%</u> | <u>87%</u> | <u>9%</u> | <u>4%</u> | <u>0%</u> | | |

See notes to financial statements.

Chrysalis Center
Statement of Cash Flows
Year Ended December 31, 2020
(with comparative totals for 2019)

| | <u>2020</u> | <u>2019</u> |
|------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 3,864,693 | \$ (624,702) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 543,533 | 681,969 |
| Changes in operating assets and liabilities: | | |
| Grants receivable | 140,983 | (168,148) |
| Accounts receivable, net | (2,706,754) | 25,622 |
| Right-of-use to in-kind facilities | (137,510) | 139,766 |
| Prepaid expenses | (101,619) | (61,513) |
| Deposits | - | (4,993) |
| Accounts payable | (22,925) | 9,194 |
| Accrued expenses | 773,737 | 760 |
| Deferred revenue | (34,530) | 259,643 |
| Net Cash Provided by Operating Activities | 2,319,608 | 257,598 |
| Cash Flows from Investing Activities | | |
| Purchases of property and equipment | (4,912) | (212,019) |
| Net Cash Used in Investing Activities | (4,912) | (212,019) |
| Increase in Cash and Cash Equivalents | 2,314,696 | 45,579 |
| Cash and Cash Equivalents at Beginning of Year | 1,520,114 | 1,474,535 |
| Cash and Cash Equivalents at End of Year | <u>\$ 3,834,810</u> | <u>\$ 1,520,114</u> |
| Supplementary Disclosures | | |
| Cash paid during the year for: | | |
| Income taxes | \$ - | \$ - |
| Interest on lines of credit | \$ - | \$ - |

See notes to financial statements.

Chrysalis Center
Notes to Financial Statements
December 31, 2020
(with comparative totals for 2019)

Note 1—Nature of Activities and Significant Accounting Policies

Nature of Activities—The Chrysalis Center (Organization) is a California non-profit corporation, established in 1985, dedicated to creating a pathway to self-sufficiency for homeless and low income individuals by providing the resources and support needed to find and retain employment. The Organization operates centers in Downtown Los Angeles, the San Fernando Valley, Santa Monica, and Orange County and provides services as part of DOORS (Developing Opportunities and Offering Reentry Solutions), a community reentry center in South Los Angeles. Program services operated by the Organization consist of the following:

The Core Employment Program

This program offers job-readiness and employment-related social services that strengthen our clients' employability. Individuals who access services may have experienced homelessness, been impacted by the criminal justice system, or are seeking assistance in navigating a barrier to employment. Through case management, classroom instruction, and one-on-one sessions with volunteers or staff Employment Specialists, clients build job-readiness skills, create resumes, participate in practice interviews, apply to jobs, and receive resources and support to navigate other barriers they may be facing.

Chrysalis Enterprises

Chrysalis Enterprises offers paid, transitional employment with three social enterprises to get them started on the road to permanent, outside employment. Transitional jobs deliver marketable experience and occupational skills while providing a closely supervised, supportive working environment that allows clients to demonstrate and practice their hard and soft skills. There are currently three transitional job opportunities for clients within Chrysalis Enterprises: Works, Roads, and Staffing.

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization recognizes public and private grants as revenue in the period awarded. Corporate contributions and donations from individuals are recognized when received. Chrysalis Enterprises' revenue is recognized when earned. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Restrictions on long-lived assets, whether purpose-restricted contributions of long-lived assets or contributions of cash restricted for the acquisition or construction of long-lived assets, are required to be released in full when the assets are placed in service, unless otherwise donor-stipulated. Depreciation expense may not be used as a basis for satisfying donor restrictions on long-lived assets absent explicit donor stipulation.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing employment services and support for homeless and low-income individuals and earned interest. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature; the Organization did not engage in any reportable nonoperating activities during the years ended December 31, 2020 and 2019.

Income Taxes—Chrysalis Center is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Accordingly, no provision for income taxes is included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered "*more likely than not*" to be upheld under a tax authority examination. Management has evaluated its tax positions and concluded that a provision for a tax liability was not necessary at December 31, 2020 and 2019. Generally, the Organization's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Cash and Cash Equivalents—The Organization considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Investments—Investments are stated at fair value and held by an independent asset custodian. The asset allocation is managed by an investment committee in accordance with the Organization's investment policy. All investment-related activity is unrestricted in nature. The Organization had no investments at December 31, 2020 and 2019, respectively.

Grants Receivable—Grants receivable that are expected to be collected within one year are recorded at net realizable value upon receipt of the award. Grants receivable that are expected to be collected in future years are recorded at fair value at the time of the award. The Organization measures fair value of grants receivable in more than one year as the present value of expected future cash flows. Amortization of the associated discount is included in grants revenue. Management provides for probable uncollectible amounts based on its assessment of recent collection history and current donor relationships. Conditional grants are not included as support until the conditions on which they depend are substantially met.

Accounts Receivable—Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment—Property and equipment are stated at cost when purchased, or at estimated fair market value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the related asset, as follows:

| | |
|----------------------------|---------------------------------------------------------|
| Buildings and improvements | 40 years |
| Leasehold improvements | 5 years or term of lease (<i>whichever is longer</i>) |
| Furniture | 5 years |
| Office equipment | 7 years |
| Computer equipment | 3 years |
| Vehicles | 5 years |

It is the Organization's policy to expense items under \$5,000 in cost.

Concentrations of Credit Risk—Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents and receivables. The Organization places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times, such cash and cash equivalent balances are in excess of the FDIC insurance limits. Management regularly reviews the financial stability of its cash and money market fund depositories and deems the risk of loss due to these concentrations to be minimal.

Grants receivable consist of balances from local foundations and government agencies. The Organization has determined that no allowance for potential losses due to uncollectible grants receivable was necessary at December 31, 2020 and 2019.

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Accounts receivable at December 31, 2020 and 2019 are principally with local corporations, business improvement districts and government agencies. Collection losses related to accounts receivables have historically been immaterial, but management has concluded that, based on its review of balances outstanding, a valuation allowance from selected receivable balances is appropriate.

Government Grants and Contracts—Revenues from government grants and contracts are reported as increases in net assets without donor restrictions as allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Recently Adopted Accounting Principles

Contributions—In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions, and 2) determining whether a contribution is conditional. The clarified guidance applies to all entities that receive or make contributions (grants). ASU No. 2018-08 has been adopted by the Organization for the year ended December 31, 2019, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements. The Organization has determined that adopting ASU No. 2018-08 has had no material effect on the financial statements.

Revenue Recognition—In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU No. 2014-09 has been adopted by the Organization for the year ended December 31, 2020, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements. The Organization has determined that adopting ASU No. 2018-08 has had no material effect on the financial statements.

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Functionalized Expenses—The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facilities and depreciation which are allocated on a square footage basis, as well as payroll and related expenses (consisting of salaries and wages, employee benefits, and payroll taxes), professional fees and outside services, office supplies, travel and entertainment, insurance, postage and mailings, telephone, and other operating expenses, which are allocated on the basis of estimates of time and effort.

In-Kind Contributions—The Organization records various types of in-kind contributions, including services and tangible assets. Donated services are recorded at fair value at the date of donation only if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donations of tangible assets are recognized at fair value when received.

In-kind contributions of \$526,572 and \$293,884 for the years ended December 31, 2020 and 2019, respectively, are reported at their fair value in the statement of activities under public support, and in the statement of functional expense under the following captions:

| | 2020 | 2019 |
|-------------------------------------------|-------------------|-------------------|
| Right of use to in-kind facilities—Note 4 | \$ 284,090 | \$ |
| Client services | | |
| Clothing | 21,644 | 112,555 |
| Personal development | 119,751 | 75,595 |
| Transportation | 94,000 | 54,000 |
| Cost of direct benefits to donors | 7,087 | 51,734 |
| Totals | \$ 526,572 | \$ 293,884 |

Donated services are not reflected in the accompanying financial statements as they do not meet the criteria for recognition under generally accepted accounting principles. In order to expand the reach of its programs, the Organization utilizes the services of a substantial number of volunteers who have donated a significant number of hours to the Organization's program services, management, and fundraising activities. During the years ended December 31, 2020 and 2019, the Organization's network of volunteers donated 12,065 and 24,603 service hours, respectively, to the Organization. The Organization values these donated services at \$405,505 and \$775,241, respectively, based on a respective estimated rate of volunteer time of \$33.61 and \$31.51 per hour, as determined specifically for California as recently as 2020 by Independent Sector, a leading resource and research organization for the nonprofit industry.

Chrysalis Center
Notes to Financial Statements—Continued

Note 1—Nature of Activities and Significant Accounting Policies—Continued

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications—Certain 2019 amounts have been reclassified to conform with the 2020 financial statement presentation.

Comparative Totals for 2019—The accompanying financial statements include certain prior-year summarized comparative financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Note 2—Availability and Liquidity

The following represents the Organization's financial assets available at December 31, 2020 and 2019:

| | |
|----------------------------------------------------------------------------|---------------------|
| Financial assets at end of year | |
| Cash and cash equivalents | \$ 3,834,810 |
| Grants receivable | 209,799 |
| Accounts receivable | 6,063,262 |
| | <hr/> |
| Total Financial Assets | 10,107,871 |
| Less amounts not available to be used within one year: | |
| Net assets with donor restrictions | 1,060,669 |
| Less net assets with purpose restrictions to be met in less than a year | (1,060,669) |
| Board-designated reserve fund | 1,318,651 |
| | <hr/> |
| Total Unavailable Financial Assets | 1,318,651 |
| | <hr/> |
| Current Availability of Financial Assets | \$ 8,789,220 |

The Organization's goal is generally to maintain financial assets to meet at least 90 days of general operating expenses (approximately \$3 million, not including Chrysalis Enterprises labor and related expenses). The Organization has a \$2.9 million line of credit available to meet cash flow needs. The board-designated reserve fund is intended by board of director policy to be used for future major capital investments and to support programs that have been impacted by unanticipated funding reductions.

Chrysalis Center
Notes to Financial Statements—Continued

Note 3—Accounts Receivable, Net

Net accounts receivable consists of the following at December 31, 2020 and 2019:

| | 2020 | 2019 |
|-------------------------------------------|---------------------|---------------------|
| Chrysalis Enterprises | | |
| Chrysalis Works | \$ 2,749,041 | \$ 1,570,677 |
| Chrysalis Roads | 952,572 | 952,572 |
| Chrysalis Staffing | 1,872,756 | 278,858 |
| Non-Chrysalis Enterprises | 522,893 | 576,401 |
| Gross | 6,097,262 | 3,378,508 |
| Less allowance for uncollectible accounts | (34,000) | (22,000) |
| Net | \$ 6,063,262 | \$ 3,356,508 |

Chrysalis Works receivables are primarily with Business Improvement Districts (BIDs) in Los Angeles County. Chrysalis Roads receivables are with the City of Los Angeles and Butte County Office of Education (BCOE). Chrysalis Staffing receivables are with the City and County of Los Angeles and a broad range of private sector companies in Southern California. Non-Chrysalis Enterprises receivables are primarily with government entities.

Note 4—Commitments and Contingencies

On July 1, 2018, the Organization entered into an agreement with the City of Anaheim to provide facility space for a period of 24 months, at a nominal rate of \$1 for each 12-month period. The lease was renewed at the same rate on July 1, 2020 for two 12-month extensions. During the year ended December 31, 2020, the Organization recorded a right of use in-kind asset of \$284,090, of which \$73,290 was amortized as facility expense, leaving an unamortized balance of \$210,800 at December 31, 2020. The asset is reported under in-kind contributions in the statement of activities.

The Organization also rents office space in downtown Los Angeles and the San Fernando Valley under non-cancelable operating leases. Additionally, the Organization is a party to 45 non-cancelable operating equipment lease agreements.

Future minimum rental payments due on all operating leases with remaining terms of one year or more, by year, are as follows:

| <u>Year Ending December 31,</u> | |
|---------------------------------|---------------------|
| 2021 | \$ 781,530 |
| 2022 | 611,876 |
| 2023 | 262,652 |
| 2024 | 185,638 |
| 2025 | 35,089 |
| Total | \$ 1,876,785 |

Chrysalis Center
Notes to Financial Statements—Continued

Note 4—Commitments and Contingencies—Continued

Rental expense related to the above leases for the years ended December 31, 2020 and 2019 was approximately \$880,000 and \$900,000, respectively.

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although that is a possibility, the Board deems the contingency remote since, by accepting the gift and its terms, it is acknowledging the requirements of the grantor at the time of receipt.

During 2018, an employment-related claim was asserted against the Organization. The Organization is reviewing all legal options regarding this claim including settlement. As a result, the Organization has recorded an accrual of \$690,000 at December 31, 2020, which is included in accrued expenses, as an estimated settlement. The resolution of this legal matter is not expected until 2022.

Note 5—Lines of Credit

In September 2018, the Organization entered into a bank line of credit providing a maximum borrowing amount \$2,000,000, secured by the Organization's real and personal property. The line of credit was increased to \$2,940,000 on July 2, 2020. The line of credit bears interest at 4.50% as of the date of negotiation and is indexed at the bank's reference rate. Interest is payable monthly and the loan matures on May 1, 2025. As of December 31, 2020, the Organization had not drawn any funds on any of the lines since the loans' inceptions and paid no interest during the years ended December 31, 2020, and 2019.

Note 6—Property and Equipment, Net

Net property and equipment consist of the following at December 31, 2020 and 2019:

| | 2020 | 2019 |
|------------------------------------|---------------------|---------------------|
| Land | \$ 1,300,000 | \$ 1,300,000 |
| Building and improvements | 652,878 | 652,878 |
| Leasehold improvements | 4,020,473 | 4,020,473 |
| Furniture and equipment | 170,309 | 170,309 |
| Vehicles | 124,199 | 119,287 |
| Property and Equipment | 6,267,859 | 6,262,947 |
| Less accumulated depreciation | (3,562,298) | (3,018,765) |
| Property and Equipment, Net | \$ 2,705,561 | \$ 3,244,182 |

Chrysalis Center
Notes to Financial Statements—*Continued*

Note 7—Net Assets without Donor Restrictions

The Organization has board-designated net assets which are voluntary, board-approved segregations of net assets without donor restrictions, reserved for specific purposes, projects or investments.

The Reserve and Capital Improvement Fund (Fund) is to be used for major capital investments or other extraordinary purposes, such as supporting programs that have been impacted by unanticipated funding reductions. It may also be tapped as a short-term line of credit to address temporary, unanticipated cash flow needs. The Board of Directors may decide, at its discretion, to designate additional funds to the Fund based on the Organization's surplus cash position and projected cash needs.

During the years ended December 31, 2020 and 2019, no amounts were designated to or released from the Fund. At December 31, 2020 and 2019, the total of the Fund was \$1,318,651.

Note 8—Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2020 and 2019 are restricted for the following purposes or periods:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------------------|----------------------------|--------------------------|
| Subject to expenditure for specified purpose: | | |
| Employment programs | \$ 874,485 | \$ 300,790 |
| Promises to give, the proceeds from which | | |
| have been restricted by donors for: | | |
| Employment programs | <u>186,184</u> | <u>350,782</u> |
| Total Net Assets with Donor Restrictions | <u>\$ 1,060,669</u> | <u>\$ 651,572</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors.

| | <u>2020</u> | <u>2019</u> |
|----------------------------------------------------------|----------------------------|----------------------------|
| Satisfaction of purpose restrictions: | | |
| Employment programs | \$ 2,030,445 | \$ 1,300,506 |
| SBA PPP grant | <u>3,467,600</u> | |
| Total Net Assets Released from Donor Restrictions | <u>\$ 5,498,045</u> | <u>\$ 1,300,506</u> |

Note 9—Recent Accounting Pronouncements

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for nonprofit organizations with fiscal years beginning after December 15, 2021, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2020-07 will have on its financial statements.

Note 10—SBA PPP Grant

On April 13, 2020, the Organization received \$3,467,600 in Paycheck Protection Program (PPP) funds from the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under the program terms, PPP funds are forgiven and recognized as grant revenue if the proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent, and utilities) incurred following receipt of the advance. The Organization used the grant proceeds for purposes consistent with the PPP in order to ensure the full balance is forgiven and has recognized the \$3,467,000 as grant revenue in the statement of activities for the year ended December 31, 2020. The Organization received notification of forgiveness of the \$3,467,000 advance from the SBA on June 16, 2021.

Chrysalis Center
Notes to Financial Statements—Continued

Note 11—Risks and Uncertainties

On March 10, 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. Since then, business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The Organization is continuing to conduct its employment services activities, on a remote basis, and to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on the Organization cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Note 12—Subsequent Events

Management evaluated all activities of Chrysalis Center through September 17, 2021, which is the date the financial statements were available to be issued, and concluded that no material subsequent events, other than the notice of PPP forgiveness from the SBA as described in Note 10, have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.