

Chrysalis Center

Financial Statements

December 31, 2021
(With Comparative Totals for 2020)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Chrysalis Center
Los Angeles, California

Opinion

We have audited the accompanying financial statements of Chrysalis Center (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Chrysalis Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Chrysalis Center's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

The financial statements of Chrysalis Center as of December 31, 2020, were audited by other auditors whose report dated September 17, 2021, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
Woodland Hills, California

December 22, 2022

Chrysalis Center
Statement of Financial Position
December 31, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,687,249	\$ 3,834,810
Accounts receivable, net	7,206,903	6,063,262
Contributions and grants receivable	582,709	356,379
Prepaid expenses	<u>629,900</u>	<u>428,462</u>
Total current assets	<u>13,106,761</u>	<u>10,682,913</u>
Other assets		
Contributions and grants receivable, net of current portion	-	64,220
Property and equipment, net	2,346,583	2,705,561
Deposits	<u>127,970</u>	<u>127,970</u>
Total other assets	<u>2,474,553</u>	<u>2,897,751</u>
Total assets	<u><u>\$ 15,581,314</u></u>	<u><u>\$ 13,580,664</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 448,613	\$ 263,010
Accrued expenses	1,529,300	1,400,675
Deferred revenue	<u>230,113</u>	<u>230,113</u>
Total current liabilities	<u>2,208,026</u>	<u>1,893,798</u>
Net assets		
Without donor restrictions		
Undesignated	9,836,230	9,307,546
Board-designated	<u>1,318,651</u>	<u>1,318,651</u>
Total without donor restrictions	11,154,881	10,626,197
With donor restrictions	<u>2,218,407</u>	<u>1,060,669</u>
Total net assets	<u>13,373,288</u>	<u>11,686,866</u>
Total liabilities and net assets	<u><u>\$ 15,581,314</u></u>	<u><u>\$ 13,580,664</u></u>

The accompanying notes are an integral part of these financial statements.

Chrysalis Center
Statement of Activities
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenues and other support				
Chrysalis Enterprises	\$ 34,592,035	\$ -	\$ 34,592,035	\$ 24,711,958
Contributions and grants	3,844,671	2,066,489	5,911,160	7,066,585
Governmental agencies	3,936,549	-	3,936,549	3,224,179
Special events, net	1,125,733	-	1,125,733	502,908
In-kind contributions	477,485	-	477,485	526,572
Rental fees	40,700	-	40,700	-
Interest income	6,529	-	6,529	46,425
Paycheck Protection Program grant revenue	-	-	-	3,467,600
Net assets released from restriction	908,751	(908,751)	-	-
Total revenues and other support	<u>44,932,453</u>	<u>1,157,738</u>	<u>46,090,191</u>	<u>39,546,227</u>
Functional expenses				
Program services				
Chrysalis Enterprises	31,140,608	-	31,140,608	24,501,330
Employment	<u>7,283,250</u>	<u>-</u>	<u>7,283,250</u>	<u>6,592,371</u>
Total program services	<u>38,423,858</u>	<u>-</u>	<u>38,423,858</u>	<u>31,093,701</u>
Support services				
Management and general	4,189,896	-	4,189,896	3,144,769
Fundraising	<u>1,790,015</u>	<u>-</u>	<u>1,790,015</u>	<u>1,443,064</u>
Total support services	<u>5,979,911</u>	<u>-</u>	<u>5,979,911</u>	<u>4,587,833</u>
Total functional expenses	<u>44,403,769</u>	<u>-</u>	<u>44,403,769</u>	<u>35,681,534</u>
Change in net assets	528,684	1,157,738	1,686,422	3,864,693
Net assets, beginning of year	<u>10,626,197</u>	<u>1,060,669</u>	<u>11,686,866</u>	<u>7,822,173</u>
Net assets, end of year	<u>\$ 11,154,881</u>	<u>\$ 2,218,407</u>	<u>\$ 13,373,288</u>	<u>\$ 11,686,866</u>

The accompanying notes are an integral part of these financial statements.

Chrysalis Center
Statement of Functional Expenses
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	Employment Services			Support Services		2021	2020
	Chrysalis Enterprises	Employment	Total	Management and General	Fundraising	Total	Total
Expenses							
Clothing	\$ 71,358	\$ 97,163	\$ 168,521	\$ -	\$ -	\$ 168,521	\$ 106,546
Cost of direct benefits to donors	-	-	-	-	106,520	106,520	14,630
Curriculum	2,019	28,014	30,033	-	-	30,033	11,641
Depreciation	24,748	354,579	379,327	38,546	17,688	435,561	543,533
Facilities	101,045	564,536	665,581	251,897	31,985	949,463	926,779
Food	2,082	178,546	180,628	-	-	180,628	-
Insurance and registration	506,615	-	506,615	-	-	506,615	519,684
Insurance and utilities	68,472	323,137	391,609	462,857	45,814	900,280	582,977
Other operating expenses	160,938	77,953	238,891	540,916	99,503	879,310	778,096
Outside services	786,707	-	786,707	-	-	786,707	394,629
Payroll and related	3,934,378	4,714,957	8,649,335	1,445,568	1,490,064	11,584,967	10,692,562
Payroll and related - Transitional Program	23,149,608	-	23,149,608	-	-	23,149,608	17,252,014
Personal development	54,301	827,161	881,462	-	-	881,462	766,670
Postage and mailings	2,978	18,169	21,147	12,150	36,520	69,817	50,329
Professional fees and outside services	62,994	7,498	70,492	1,405,656	43,190	1,519,338	1,065,577
Publicity, travel and entertainment	14,343	20,329	34,672	32,306	25,251	92,229	76,629
Supplies and materials	825,869	-	825,869	-	-	825,869	629,714
Transportation	191,815	71,208	263,023	-	-	263,023	262,822
Vehicle rental and maintenance	750,608	-	750,608	-	-	750,608	746,015
Waste management	429,730	-	429,730	-	-	429,730	275,317
Total expenses	<u>31,140,608</u>	<u>7,283,250</u>	<u>38,423,858</u>	<u>4,189,896</u>	<u>1,896,535</u>	<u>44,510,289</u>	<u>35,696,164</u>
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors	-	-	-	-	(106,520)	(106,520)	(14,630)
Total functional expenses	<u>\$ 31,140,608</u>	<u>\$ 7,283,250</u>	<u>\$ 38,423,858</u>	<u>\$ 4,189,896</u>	<u>\$ 1,790,015</u>	<u>\$ 44,403,769</u>	<u>\$ 35,681,534</u>
Percentage of total	<u>70.1 %</u>	<u>16.4 %</u>	<u>86.5 %</u>	<u>9.4 %</u>	<u>4.0 %</u>	<u>99.9 %</u>	

The accompanying notes are an integral part of these financial statements.

Chrysalis Center
Statement of Cash Flows
For the Year Ended December 31, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 1,686,422	\$ 3,864,693
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	435,561	543,533
Changes in operating assets and liabilities		
Accounts receivable, net	(1,143,641)	(2,706,754)
Contributions and grants receivable	(162,110)	3,473
Prepaid expenses	(201,438)	(101,619)
Accounts payable	185,603	(22,925)
Accrued expenses	128,625	773,737
Deferred revenue	-	(34,530)
Net cash provided by operating activities	<u>929,022</u>	<u>2,319,608</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(76,583)</u>	<u>(4,912)</u>
Net cash used in investing activities	<u>(76,583)</u>	<u>(4,912)</u>
Net increase in cash and cash equivalents	852,439	2,314,696
Cash and cash equivalents, beginning of year	<u>3,834,810</u>	<u>1,520,114</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,687,249</u></u>	<u><u>\$ 3,834,810</u></u>

The accompanying notes are an integral part of these financial statements.

Chrysalis Center
Notes to Financial Statements
December 31, 2021

1. NATURE OF OPERATIONS

The Chrysalis Center (the "Organization") is a California non-profit corporation, established in 1985, serving people navigating barriers to the workforce by offering a job readiness program, individualized supportive services, and paid transitional employment. The Organization empowers their clients on their pathway to stability, security, and fulfillment in their work and lives. The Organization operates centers in Downtown Los Angeles, the San Fernando Valley, Santa Monica, and Orange County and provides services as part of 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 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 clients 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, Safekeeping, Roads, and Staffing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and 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 ("U.S. GAAP"). The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions 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 ("Board"). Donor restricted contributions whose restrictions are met in the same reporting period, are reported as without donor restrictions. This category of net assets also includes board-designated funds which have been segregated for reserves and capital improvements.

Chrysalis Center
Notes to Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (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.

Revenue recognition and deferred revenue

Government grants and contracts are generally received under contracts from federal, state, county and city agencies. These contracts are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures or provided services in compliance with specific contract or grant provisions. The Organization has elected a simultaneous release option to account for these grants and contracts and thus are recorded as grants and contracts without donor restriction upon satisfaction of the barriers. Amounts received prior to incurring qualifying expenditures or performing the required services are reported as deferred revenue. Deferred revenue related to government grants and contracts amounted to \$230,113 as of December 31, 2021. The Organization has recognized revenue for all cost-reimbursable grants it has received as of December 31, 2021.

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 generates its revenue from services performed based on contracts with customers. Once the service has been performed, Chrysalis Enterprise will recognize the revenue. Revenue from contracts with customers is recognized using the following five steps:

- a) Identify the contract(s) with a customer
- b) Identify the performance obligations in the contract
- c) Determine the transaction price
- d) Allocate the transaction price to the performance obligations in the contract
- e) Recognize revenue when (or as) the entity satisfies a performance obligation

Chrysalis Center
Notes to Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and deferred revenue (continued)

A contract contains a promise (or promises) to transfer services to a customer. A performance obligation is a promise (or a group of promises) that is distinct. The transaction price is the amount of consideration the Organization expects to be entitled from a customer in exchange for providing the services. Revenue is recognized when the Organization satisfies each performance obligation by performing the promised services to the customer.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Organization considers all financial instruments purchased with an original maturity of three months or less to be cash equivalents. 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. Periodically, such cash and cash equivalent balances may be in excess of the FDIC insurance limits. The Organization has not experienced and does not anticipate any losses on such accounts. At December 31, 2021, cash and cash equivalents amounted to \$4,687,249.

Accounts receivable, net

Accounts receivable, net 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. At December 31, 2021, the allowance for doubtful accounts amounted to \$45,999.

Contributions and grants receivable

The Organization accounts for contributions in accordance with U.S. GAAP. Contributions received are recorded as with or without donor restriction depending on the existence or nature of any donor restrictions. Donor-restricted contributions are reported as increases in donor restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), donor restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Chrysalis Center
Notes to Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and grants receivable (continued)

Contributions and grants receivable that are expected to be collected within one year are recorded at net realizable value upon receipt of the award. Contributions and 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 contributions and grants revenue. Management provides for probable uncollectible amounts based on its assessment of recent collection history and current donor relationships. Contributions and grants receivable consist of balances from local foundations and governmental agencies. There was no allowance for doubtful contributions and grants receivable for the year ended December 31, 2021, as management has determined that all balances are expected to be collected.

Property and equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. The Organization capitalizes assets with a cost or donated value of \$5,000 or more and an estimated life greater than one year.

The estimated useful lives of property and equipment by asset category is as follows:

Building improvements	40 years
Office equipment	7 years
Automobiles	5 years
Furniture and fixtures	5 years
Computer equipment	3 years
Leasehold improvements	Lesser of five years or lease term

Contributions of services and goods

The Organization records various types of in-kind contributions, including services and tangible assets. Donations of tangible assets are recognized at fair value when received.

Chrysalis Center
Notes to Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions of services and goods (continued)

Donated tangible assets of \$215,772 for the year ended December 31, 2021 are reported at their fair value in the statement of activities:

Client services	
Clothing	\$ 38,738
Personal development	127,197
Transportation	22,500
Furniture	1,000
Training	250
Cost of direct benefits to donors	<u>26,087</u>
	<u><u>\$ 215,772</u></u>

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. 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 year ended December 31, 2021, the Organization's network of volunteers donated 8,485 service hours to the Organization. The Organization values these donated services at \$301,727 based on a respective estimated rate of volunteer time of \$35.56 as determined specifically for California as recently as 2021 by Independent Sector, a leading resource and research organization for the nonprofit industry.

During the year ended December 31, 2021, the Organization received \$261,713 of donated legal services that are reflected in the accompanying statement of activities recorded within in-kind contributions, and the statement of functional expenses recorded within professional fees and outside services.

The Organization entered into a lease agreement with the City of Anaheim in July 2018 for 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 in July 2020 for two 12-month extensions, and again renewed at the same rate in July 2022 for two 12-month period extensions. The lease contains language which requires the Organization to meet certain performance requirements and therefore the lease will be accounted for as a contribution receivable. During the year ended December 31, 2021, the Organization recognized \$64,220 in donated use of facilities for this space, which has been included within contributions and grants receivable in the accompanying statement of financial position.

Chrysalis Center
Notes to Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

The Organization allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program service or support service are allocated directly according to their natural expense classification. Expenses that are common to several functions are allocated accordingly based on the time and resources devoted to each category.

Concentrations of credit risk

During 2021, the Organization received approximately 28% of its accounts receivable through grants and contracts from two governmental agencies. Approximately 64% of the Organization's governmental agencies grant revenue was received from three agencies.

Income taxes

The Organization is a qualified organization exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The Organization recognizes the effects of its income tax positions only if those positions are more likely than not of being sustained. The Organization has evaluated its current tax positions and has concluded that as of December 31, 2021, the Organization does not have any significant uncertain tax positions for which a reserve would be necessary. 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.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation. Such reclassifications had no effect on the change in net assets.

Summarized financial information

The accompanying financial statements include certain prior-year summarized comparative financial information. 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, 2020, from which the summarized information was derived.

Chrysalis Center
Notes to Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Organization has evaluated events subsequent to December 31, 2021, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 22, 2022, the date the financial statements were available to be issued. Based upon this evaluation, no subsequent events occurred that require recognition or additional disclosure in the financial statements, except as disclosed in Note 2 and 9.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

Chrysalis Enterprises	
Chrysalis Staffing	\$ 1,489,494
Chrysalis Works	2,833,993
Chrysalis Roads	1,826,155
Other accounts receivable	<u>1,103,260</u>
	7,252,902
Less allowance for uncollectible accounts	<u>(45,999)</u>
	<u><u>\$ 7,206,903</u></u>

Chrysalis Works receivables are primarily with Business Improvement Districts in Los Angeles County. Chrysalis Roads receivables are with the City of Los Angeles and Butte County Office of Education. Chrysalis Staffing receivables are with the City and County of Los Angeles and a broad range of private sector companies in Southern California. Other accounts receivable are primarily with governmental agencies.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Land	\$ 1,300,000
Automobiles	200,781
Computer equipment	95,793
Furniture and fixtures	74,515
Leasehold improvements	4,020,473
Building improvements	<u>652,879</u>
	6,344,441
Accumulated depreciation	<u>(3,997,858)</u>
	<u><u>\$ 2,346,583</u></u>

Depreciation expense for the year ended December 31, 2021 was \$435,561.

Chrysalis Center
Notes to Financial Statements
December 31, 2021

5. REVOLVING LINE 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 (7% as of December 31, 2021). Interest is payable monthly and the loan matures on May 1, 2025. As of December 31, 2021, the Organization had not drawn any funds on the line since the loan inception and paid no interest during the year ended December 31, 2021.

6. PAYCHECK PROTECTION PROGRAM LOAN

On April 13, 2020, the Organization received loan proceeds of \$3,467,600 from a promissory note issued by American Business Bank under the Paycheck Protection Program ("PPP") which was established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The term on the loan was two years and the annual interest rate was 1.00%. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness is determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

The loan proceeds were recognized as grant revenue during the year ended December 31, 2020 based on qualifying expenses incurred. On June 16, 2021, the Organization received formal forgiveness from the SBA for the full amount of the loan.

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 (the "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 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 year ended December 31, 2021, no amounts were designated to or released from the Fund. At December 31, 2021, the total of the Fund was \$1,318,651.

Chrysalis Center
Notes to Financial Statements
December 31, 2021

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions during the year are as follows:

	Released from Restrictions	Balance, December 31, 2021
Core employment programs	\$ (908,751)	\$ 1,483,780
Time restricted	<u>-</u>	<u>582,709</u>
	<u>\$ (908,751)</u>	<u>\$ 2,066,489</u>

9. COMMITMENTS AND CONTINGENCIES

Obligations under operating leases

The Organization 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>	
2022	\$ 426,851
2023	360,206
2024	322,547
2025	210,549
2026	189,540
Thereafter	<u>175,565</u>
	<u>\$ 1,685,258</u>

Litigation

During May 2018, an employment-related claim was asserted against the Organization relating to various violations of California wage and hour laws. During 2021, the Organization reviewed all legal options regarding this claim including settlement. After discovery and remediation, the case was settled, and the court preliminarily approved the settlement in November 2021. In March 2022, the court gave final approval to the settlement and entered judgment based on the settlement. At December 31, 2020, the Organization accrued \$690,000 for the claim within accrued expenses in the accompanying financial statements. In 2022, the Organization paid out \$690,000 for the claim.

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9. COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

During March 2020, an employment-related claim was asserted against the Organization relating to various violations of California wage and hour laws and for wrongful termination. After discovery and remediation, the case was settled in November 2021 for \$60,000 paid by the Organization's insurance carrier. In December 2021, the complaint was dismissed with prejudice.

10. LIQUIDITY AND FUNDS AVAILABLE

As part of the Organization's liquidity management, it structures its financial assets to be available as general expenditures, liabilities, and other obligations come due. To meet liquidity needs, the Organization utilizes cash and cash equivalents and receivables that are considered current and will be collected from funders within the applicable period.

The Organization's financial assets available within one year of the statement of financial position date for general expenditures were as follows:

Financial assets:

Cash and cash equivalents	\$ 4,687,249
Accounts receivable, net	7,206,903
Contributions and grants receivable	582,709
	<u>12,476,861</u>

Less amounts unavailable for general expenditure within one year:

Net assets with donor restrictions	(2,218,407)
Board-designated	(1,318,651)
Accounts receivable related to Chrysalis Enterprises not used for operating purposes	(6,149,642)
	<u>(9,686,700)</u>
	<u>\$ 2,790,161</u>

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 revolving line of credit available to meet cash flow needs. The board-designated reserve fund is intended by the Board to be used for future major capital investments and to support programs that have been impacted by unanticipated funding reductions.