

Chrysalis Center

Financial Statements

December 31, 2022
(With Comparative Totals for 2021)



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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, 2022, 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, 2022, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 842, *Leases* as of January 1, 2022. Our opinion is not modified with respect to that matter.

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

We have previously audited Chrysalis Center's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
Woodland Hills, California

November 16, 2023

Chrysalis Center
Statement of Financial Position
December 31, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,355,110	\$ 4,687,249
Accounts receivable, net	10,123,116	7,206,903
Contributions and grants receivable	478,788	582,709
Prepaid expenses	<u>609,576</u>	<u>629,900</u>
Total current assets	<u>13,566,590</u>	<u>13,106,761</u>
Other assets		
Right-of-use lease assets - operating	2,917,766	-
Property and equipment, net	2,111,832	2,346,583
Deposits	<u>127,307</u>	<u>127,970</u>
Total other assets	<u>5,156,905</u>	<u>2,474,553</u>
Total assets	<u><u>\$ 18,723,495</u></u>	<u><u>\$ 15,581,314</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,313,634	\$ 448,613
Accrued expenses	1,649,275	1,529,300
Deferred revenue	230,113	230,113
Current portion of operating lease liability	<u>1,041,191</u>	<u>-</u>
Total current liabilities	<u>4,234,213</u>	<u>2,208,026</u>
Long-term liabilities		
Revolving line of credit	1,500,000	-
Operating lease liability, net of current portion	<u>1,840,912</u>	<u>-</u>
Total long-term liabilities	<u>3,340,912</u>	<u>-</u>
Total liabilities	<u>7,575,125</u>	<u>2,208,026</u>
Net assets		
Without donor restrictions		
Undesignated	8,094,943	9,836,230
Board-designated	<u>1,318,651</u>	<u>1,318,651</u>
Total without donor restrictions	9,413,594	11,154,881
With donor restrictions	<u>1,734,776</u>	<u>2,218,407</u>
Total net assets	<u>11,148,370</u>	<u>13,373,288</u>
Total liabilities and net assets	<u><u>\$ 18,723,495</u></u>	<u><u>\$ 15,581,314</u></u>

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

Chrysalis Center
Statement of Activities
For the Year Ended December 31, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Revenues and other support				
Chrysalis Enterprises	\$ 34,972,743	\$ -	\$ 34,972,743	\$ 34,592,035
Contributions and grants	3,745,928	1,515,301	5,261,229	5,911,160
Governmental agencies	4,958,643	-	4,958,643	3,936,549
Special events, net	1,596,774	-	1,596,774	1,125,733
In-kind contributions	385,355	-	385,355	477,485
Rental fees	44,400	-	44,400	40,700
Interest income	119,428	-	119,428	6,529
Net assets released from restriction	<u>1,998,932</u>	<u>(1,998,932)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>47,822,203</u>	<u>(483,631)</u>	<u>47,338,572</u>	<u>46,090,191</u>
Functional expenses				
Program services				
Chrysalis Enterprises	34,061,350	-	34,061,350	31,140,608
Employment	<u>10,697,213</u>	<u>-</u>	<u>10,697,213</u>	<u>7,283,250</u>
Total program services	<u>44,758,563</u>	<u>-</u>	<u>44,758,563</u>	<u>38,423,858</u>
Support services				
Management and general	3,084,708	-	3,084,708	4,189,896
Fundraising	<u>1,720,219</u>	<u>-</u>	<u>1,720,219</u>	<u>1,790,015</u>
Total support services	<u>4,804,927</u>	<u>-</u>	<u>4,804,927</u>	<u>5,979,911</u>
Total functional expenses	<u>49,563,490</u>	<u>-</u>	<u>49,563,490</u>	<u>44,403,769</u>
Change in net assets	(1,741,287)	(483,631)	(2,224,918)	1,686,422
Net assets, beginning of year	<u>11,154,881</u>	<u>2,218,407</u>	<u>13,373,288</u>	<u>11,686,866</u>
Net assets, end of year	<u>\$ 9,413,594</u>	<u>\$ 1,734,776</u>	<u>\$ 11,148,370</u>	<u>\$ 13,373,288</u>

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

Chrysalis Center
Statement of Functional Expenses
For the Year Ended December 31, 2022
(With Comparative Totals for 2021)

	Employment Services			Support Services		2022	2021
	Chrysalis Enterprises	Employment	Total	Management and General	Fundraising	Total	Total
Expenses							
Clothing	\$ 198,777	\$ 2,822	\$ 201,599	\$ -	\$ 28,968	\$ 230,567	\$ 168,521
Cost of direct benefits to donors	400	-	400	300	774,034	774,734	106,520
Curriculum	-	62,752	62,752	7,078	50	69,880	30,033
Depreciation	33,495	363,840	397,335	47,749	18,545	463,629	435,561
Facilities	181,594	541,078	722,672	186,749	5,505	914,926	949,463
Food	-	24,575	24,575	711	183	25,469	180,628
Insurance and registration	324,792	-	324,792	329	-	325,121	506,615
Insurance and utilities	249,074	355,184	604,258	209,963	53,688	867,909	900,280
Other operating expenses	838,553	698,868	1,537,421	-	174,002	1,711,423	879,310
Outside services	1,109,858	-	1,109,858	25	-	1,109,883	786,707
Payroll and related	5,270,109	7,127,796	12,397,905	1,079,343	1,297,087	14,774,335	11,584,967
Payroll and related - Transitional Program	22,739,734	2,647	22,742,381	-	-	22,742,381	23,149,608
Personal development	7,123	1,289,984	1,297,107	-	-	1,297,107	881,462
Postage and mailings	5,356	9,275	14,631	59,952	38,356	112,939	69,817
Professional fees and outside services	487,651	56,955	544,606	1,448,215	85,363	2,078,184	1,519,338
Publicity, travel and entertainment	50,243	61,754	111,997	44,594	16,530	173,121	92,229
Supplies and materials	884,475	769	885,244	-	1,942	887,186	825,869
Transportation	472	98,836	99,308	-	-	99,308	263,023
Vehicle rental and maintenance	1,287,788	78	1,287,866	-	-	1,287,866	750,608
Waste management	392,256	-	392,256	-	-	392,256	429,730
Total expenses	<u>34,061,750</u>	<u>10,697,213</u>	<u>44,758,963</u>	<u>3,085,008</u>	<u>2,494,253</u>	<u>50,338,224</u>	<u>44,510,289</u>
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors	<u>(400)</u>	<u>-</u>	<u>(400)</u>	<u>(300)</u>	<u>(774,034)</u>	<u>(774,734)</u>	<u>(106,520)</u>
Total functional expenses	<u>\$ 34,061,350</u>	<u>\$ 10,697,213</u>	<u>\$ 44,758,563</u>	<u>\$ 3,084,708</u>	<u>\$ 1,720,219</u>	<u>\$ 49,563,490</u>	<u>\$ 44,403,769</u>
Percentage of total	<u>68.7 %</u>	<u>21.6 %</u>	<u>90.3 %</u>	<u>6.2 %</u>	<u>3.5 %</u>	<u>100.0 %</u>	

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

Chrysalis Center
Statement of Cash Flows
For the Year Ended December 31, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (2,224,918)	\$ 1,686,422
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	463,629	435,561
Reduction in the carrying amount of right-of-use assets - operating	817,165	-
Changes in operating assets and liabilities		
Accounts receivable, net	(2,916,213)	(1,143,641)
Contributions and grants receivable	103,921	(162,110)
Prepaid expenses	20,324	(201,438)
Deposits	663	-
Accounts payable	865,021	185,603
Accrued expenses	119,975	128,625
Operating lease liabilities	(852,828)	-
Net cash provided by (used in) operating activities	<u>(3,603,261)</u>	<u>929,022</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(228,878)</u>	<u>(76,583)</u>
Net cash used in investing activities	<u>(228,878)</u>	<u>(76,583)</u>
Cash flows from financing activities		
Proceeds from revolving line of credit	<u>1,500,000</u>	<u>-</u>
Net cash provided by financing activities	<u>1,500,000</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(2,332,139)	852,439
Cash and cash equivalents, beginning of year	<u>4,687,249</u>	<u>3,834,810</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,355,110</u></u>	<u><u>\$ 4,687,249</u></u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 20,956	\$ -
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Supplemental schedule of noncash investing and financing activities

Right-of-use lease assets obtained in exchange of lease obligations	\$ 3,734,931	\$ -
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The accompanying notes are an integral part of these financial statements.

Chrysalis Center
Notes to Financial Statements
December 31, 2022

1. NATURE OF OPERATIONS

The Chrysalis Center (the "Organization") is a California non-profit corporation, established in March 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 four 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 accompanying 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, 2022

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, 2022. The Organization has recognized revenue for all cost-reimbursable grants it has received as of December 31, 2022.

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 Enterprises 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, 2022

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 U.S. GAAP 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, 2022, cash and cash equivalents amounted to \$2,355,110.

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, 2022, the allowance for doubtful accounts amounted to \$58,000.

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 net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

Chrysalis Center
Notes to Financial Statements
December 31, 2022

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, 2022, 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 5 years or lease term

In-kind contributions of goods and services

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.

Donated tangible assets of \$92,196 for the year ended December 31, 2022 are reported at their fair value in the accompanying statement of activities:

Client services	
Clothing	\$ 28,968
Cost of direct benefits to donors	<u>63,228</u>
	<u>\$ 92,196</u>

Chrysalis Center
Notes to Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-kind contributions of goods and services (continued)

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 U.S. GAAP. 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, 2022, the Organization's network of volunteers donated 8,628 service hours to the Organization. The Organization values these donated services at \$258,409 based on a respective estimated rate of volunteer time of \$29.95 as determined specifically for California as recently as 2022 by Independent Sector, a leading resource and research organization for the nonprofit industry.

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, 2022, the Organization recognized \$293,160 in donated use of facilities for this space, which has been included within in-kind contributions in the accompanying statement of financial activities.

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 2022, the Organization received approximately 26% of its accounts receivable through grants and contracts from two governmental agencies. Approximately 57% of the Organization's governmental agencies grant revenue was received from two agencies.

Chrysalis Center
Notes to Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022, 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.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Change in accounting principle

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, Accounting Standards Codification ("ASC") Topic 842 ("ASC 842"). ASC 842 is the comprehensive lease standard that supersedes the previous authoritative lease accounting guidance contained in ASC 840. ASC 842 requires a lessee to recognize assets and liabilities related to long-term leases that were classified in its statement of financial position as operating leases under previous guidance. A leased asset, referred to as a right-of-use asset, is to be recognized related to the right to use the underlying asset and a lease related liability is to be recognized related to the lease payment obligations over the term of the lease, and includes options to extend that management reasonably expects to exercise. ASC 842 also requires expanded disclosures surrounding leases.

The Organization adopted ASC 842, with an initial application date of January 1, 2022, by applying the modified retrospective transition approach and using the additional and optional transition method provided by ASU No. 2018-11, *Leases* (Topic 842): Targeted Improvements. The Organization did not restate prior periods as presented under ASC 840 and, instead, evaluated whether a cumulative impact adjustment to net assets as of January 1, 2022, was necessary for the cumulative impact of adoption of ASC 842. Management determined no cumulative effect adjustment to net assets as of January 1, 2022, was necessary.

As part of the allowable transition method, the Organization elected to apply the following practical expedients:

- Election not to reassess whether any expired or existing contracts are, or contain, leases.
- Election not to reassess the lease classification for any expired or existing leases.

Chrysalis Center
Notes to Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- Election not to reassess initial direct costs on any existing leases.
- Election to use the risk-free interest rate as the discount rate.
- Election whereby the lease and nonlease components will not be separated for leases of office space, warehouse and equipment.
- Election not to record right-of-use assets and corresponding lease liabilities for short-term leases with a lease term of 12 months or less, but greater than one month. Leases of one month or less are not included in short-term lease costs.

The Organization evaluates whether new contracts are a lease at the contract inception or for a modified contract at the modification date. In calculating the present value of the right-of-use assets and liabilities, the Organization includes lease renewals and or termination options. If it is reasonably certain that a renewal or termination option will be exercised, the exercise of the options is considered in calculating the term of the lease.

Subsequent events

The Organization has evaluated events subsequent to December 31, 2022, to assess the need for potential recognition or disclosure in the accompanying financial statements. Such events were evaluated through November 16, 2023, 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.

Recent accounting pronouncements

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Non-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets and increases the disclosure requirements around contributed nonfinancial assets. The standard includes disclosures of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The Organization adopted ASU 2020-07 with a date of initial application of January 1, 2022. The adoption of ASU 2020-07 did not have a significant impact on the financial statements. 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.

Chrysalis Center
Notes to Financial Statements
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3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

Chrysalis Enterprises	
Chrysalis Staffing	\$ 1,298,949
Chrysalis Works	3,389,321
Chrysalis Roads	4,217,290
Other accounts receivable	<u>1,275,556</u>
	10,181,116
Less allowance for uncollectible accounts	<u>(58,000)</u>
	<u><u>\$ 10,123,116</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	323,135
Computer equipment	202,317
Furniture and fixtures	74,515
Leasehold improvements	4,020,473
Building improvements	<u>652,879</u>
	6,573,319
Accumulated depreciation	<u>(4,461,487)</u>
	<u><u>\$ 2,111,832</u></u>

Depreciation expense for the year ended December 31, 2022 was \$463,629.

5. REVOLVING LINE OF CREDIT

In September 2018, the Organization entered into a revolving credit agreement with American Business Bank which provides for a revolving line of credit ("line of credit") for maximum borrowings up to \$2,000,000 and is secured by the Organization's real and personal property. The line of credit was increased to \$2,940,000 in July 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 (7.5% as of December 31, 2022). Interest is payable monthly and the line of credit matures in May 2025. The outstanding balance of the line of credit was \$1,500,000 at December 31, 2022.

Chrysalis Center
Notes to Financial Statements
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6. 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, 2022, no amounts were designated to or released from the Fund. At December 31, 2022, the total of the Fund was \$1,318,651.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2022:

Purpose restricted	\$ 737,500
Subject to passage of time	<u>997,276</u>
	<u><u>\$ 1,734,776</u></u>

8. LEASES

In January 2022, the Organization adopted the new lease accounting guidance under ASC 842. The most significant change requires lessees to record the present value of the operating lease payments as right-of-use assets and lease liabilities on the accompanying statement of financial position. The new guidance continues to require lessees to classify leases between operating and financing leases (formerly "capital leases"). The Organization has no financing leases as of December 31, 2022.

The Organization has operating leases for office space in downtown Los Angeles, Orange County, and the San Fernando Valley under non-cancelable operating leases. Additionally, the Organization is a party to 66 non-cancelable operating equipment lease agreements. These lease agreements were previously recognized under the prior standard, ASC 840, as operating leases at December 31, 2021. Upon adoption of ASC 842, the qualifying leases have been recognized as right-of-use lease assets - operating on the accompanying statement of financial position at December 31, 2022. The leases carry separate terms and expire at various dates through April 2028.

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8. LEASES (continued)

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 has been properly accounted for under ASC 842.

The adoption of ASC 842 resulted in the recognition of right-of-use lease assets and liabilities - operating totaling \$3,734,931.

Right-of-use lease assets are as follows:

Right-of-use lease assets - operating	<u>\$ 2,917,766</u>
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The operating lease liability is detailed as follows:

Operating lease liability, current	\$ 1,041,191
Operating lease liability, net of current portion	<u>1,840,912</u>
	<u>\$ 2,882,103</u>

Lease costs for the year consisted of the following:

Operating lease costs	
Monthly scheduled rent	<u>\$ 863,020</u>
	<u>\$ 863,020</u>

The weighted-average remaining lease terms and discount rates are as follows:

Weighted-average remaining lease term - operating lease	3.39 years
Weighted-average discount rate - operating lease	1.83%

Chrysalis Center
Notes to Financial Statements
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8. LEASES (continued)

Future maturities of the operating lease liability are as follows:

<u>Year ending December 31,</u>	
2023	\$ 1,083,290
2024	896,518
2025	418,736
2026	282,969
2027	<u>285,256</u>
	2,966,769
Less: imputed interest	<u>(84,666)</u>
Term loan, net of discount	2,882,103
Current portion	<u>(1,041,191)</u>
	<u><u>\$ 1,840,912</u></u>

9. COMMITMENTS AND CONTINGENCIES

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 into judgment based on the settlement. At December 31, 2020, the Organization accrued \$690,000 for the claim. In 2022, the Organization paid out \$690,000 for the claim.

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.

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10. LIQUIDITY AND FUNDS AVAILABLE (continued)

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

Financial assets:

Cash and cash equivalents	\$ 2,355,110
Accounts receivable, net	10,123,116
Contributions and grants receivable	<u>478,788</u>
	<u>12,957,014</u>

Less amounts unavailable for general expenditure within one year:

Net assets with donor restrictions	(1,734,776)
Board-designated	(1,318,651)
Accounts receivable related to Chrysalis Enterprises not used for operating purposes	<u>(8,905,560)</u>
	<u>(11,958,987)</u>
	<u><u>\$ 998,027</u></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 with \$1.4 million available to draw as of December 31, 2022. 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.