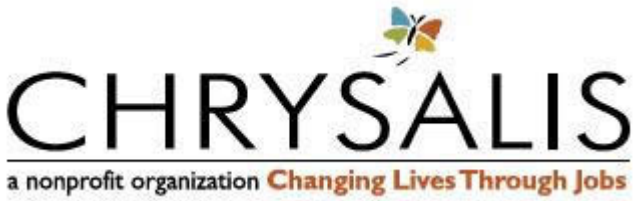
Audited Financial Statements



December 31, 2017 and 2016

Quigley & Miron

Chrysalis Center
Audited Financial Statements
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December 31, 2017 and 2016

Quigley & Miron

Certified Public Accountants

Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

Telephone: (213) 639-3550
Facsimile: (213) 639-3555

Suite 700
1999 South Bascom Avenue
Campbell, California 95008

Telephone: (408) 614-0100
Facsimile: (213) 639-3555

Independent Auditor's Report

Board of Directors
Chrysalis Center
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying statements of financial position of Chrysalis Center (Organization), a nonprofit organization, as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audits. We conducted our audits 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Zwigley & Nixon

Los Angeles, California
September 12, 2018

Chrysalis Center
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 967,671	$ 835,405
Investments—Note 2		346,215
Grants receivable	322,819	550,608
Accounts receivable, net—Note 4	2,790,199	1,527,227
Prepaid expenses	191,233	264,903
Total Current Assets	**4,271,922**	**3,524,358**
Non-Current Assets		
Deposits	94,788	91,177
Property and equipment, net—Note 5	3,714,865	4,054,855
Total Non-Current Assets	**3,809,653**	**4,146,032**
Total Assets	**$ 8,081,575**	**$ 7,670,390**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 114,829	$ 50,743
Accrued expenses	485,685	327,343
Deferred revenue	52,349	61,538
Total Liabilities	**652,863**	**439,624**
Commitments and Contingencies—Note 7		
Net Assets		
Unrestricted		
Undesignated	3,913,950	3,513,859
Board-designated Reserve and Capital Improvement Fund—Note 8	1,318,651	1,199,776
Total Unrestricted Net Assets	**5,232,601**	**4,713,635**
Temporarily restricted—Note 9	2,196,111	2,517,131
Total Net Assets	**7,428,712**	**7,230,766**
Total Liabilities and Net Assets	**$ 8,081,575**	**$ 7,670,390**

Chrysalis Center
Statement of Activities
Year Ended December 31, 2017

	Unrestricted				
	Undesignated	Board-Designated	Total	Temporarily Restricted	Total
Public Support					
Contributions	$ 1,690,586	$	$ 1,690,586	$	$ 1,690,586
Foundations and corporations	1,371,854		1,371,854	302,000	1,673,854
Governmental agencies	1,784,378		1,784,378	354,842	2,139,220
Special event revenue					
Gross revenue	1,797,086		1,797,086		1,797,086
Less cost of direct benefits to donors	(428,308)		(428,308)		(428,308)
Net Special Event Revenue	**1,368,778**		**1,368,778**		**1,368,778**
Total Public Support	**6,215,596**		**6,215,596**	**656,842**	**6,872,438**
Revenue					
Chrysalis Enterprises	11,673,674		11,673,674		11,673,674
Interest and dividend income	1,038	6,436	7,474		7,474
Gain on investments		8,418	8,418		8,418
Total Revenue	**11,674,712**	**14,854**	**11,689,566**		**11,689,566**
Reclassifications					
Net assets released from restrictions	977,862		977,862	(977,862)	
Transfers to board-designated net assets—Note 8	(104,021)	104,021			
Total Reclassifications	**873,841**	**104,021**	**977,862**	**(977,862)**	
Total Public Support, Revenue, and Net Assets After Reclassifications	**18,764,149**	**118,875**	**18,883,024**	**(321,020)**	**18,562,004**
Expenses					
Program services					
Employment	4,705,355		4,705,355		4,705,355
Chrysalis Enterprises	12,165,290		12,165,290		12,165,290
Total Program Services	**16,870,645**		**16,870,645**		**16,870,645**
Supporting services					
Management and general	486,355		486,355		486,355
Fundraising	1,007,058		1,007,058		1,007,058
Total Supporting Services	**1,493,413**		**1,493,413**		**1,493,413**
Total Expenses	**18,364,058**		**18,364,058**		**18,364,058**
Change in Net Assets	**400,091**	**118,875**	**518,966**	**(321,020)**	**197,946**
Net Assets at Beginning of Year	**3,513,859**	**1,199,776**	**4,713,635**	**2,517,131**	**7,230,766**
Net Assets at End of Year	**$ 3,913,950**	**$ 1,318,651**	**$ 5,232,601**	**$ 2,196,111**	**$ 7,428,712**

See notes to financial statements.

Chrysalis Center
Statement of Activities
Year Ended December 31, 2016

	Unrestricted				
	Undesignated	Board-Designated	Total	Temporarily Restricted	Total
Public Support					
Contributions	$ 1,466,423	$	$ 1,466,423	$	$ 1,466,423
Foundations and corporations	1,652,724		1,652,724	469,000	2,121,724
Governmental agencies	1,010,719		1,010,719	291,594	1,302,313
Special event revenue					
Gross revenue	1,549,064		1,549,064		1,549,064
Less cost of direct benefits to donors	(389,152)		(389,152)		(389,152)
Net Special Event Revenue	**1,159,912**		**1,159,912**		**1,159,912**
Total Public Support	**5,289,778**		**5,289,778**	**760,594**	**6,050,372**
Revenue					
Chrysalis Enterprises	8,230,027		8,230,027		8,230,027
Interest and dividend income		2,005	2,005		2,005
Loss on investments		(5,272)	(5,272)		(5,272)
Total Revenue	**8,230,027**	**(3,267)**	**8,226,760**		**8,226,760**
Reclassifications					
Net assets released from restrictions	808,507		808,507	(808,507)	
Total Reclassifications	**808,507**		**808,507**	**(808,507)**	
Total Public Support, Revenue, and Net Assets After Reclassifications	**14,328,312**	**(3,267)**	**14,325,045**	**(47,913)**	**14,277,132**
Expenses					
Program services					
Employment	3,826,836		3,826,836		3,826,836
Chrysalis Enterprises	8,834,239		8,834,239		8,834,239
Total Program Services	**12,661,075**		**12,661,075**		**12,661,075**
Supporting services					
Management and general	580,261		580,261		580,261
Fundraising	960,339		960,339		960,339
Total Supporting Services	**1,540,600**		**1,540,600**		**1,540,600**
Total Expenses	**14,201,675**		**14,201,675**		**14,201,675**
Change in Net Assets	**126,637**	**(3,267)**	**123,370**	**(47,913)**	**75,457**
Net Assets at Beginning of Year	**3,387,222**	**1,203,043**	**4,590,265**	**2,565,044**	**7,155,309**
Net Assets at End of Year	**$ 3,513,859**	**$ 1,199,776**	**$ 4,713,635**	**$ 2,517,131**	**$ 7,230,766**

See notes to financial statements.

Chrysalis Center
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services						
	Employment	Chrysalis Enterprises	Total	Management and General	Fundraising	Special Event Expense	Total
Payroll and related	$ 2,827,973	$ 2,347,376	$ 5,175,349	$ 348,440	$ 762,975	$	$ 6,286,764
Chrysalis Enterprises labor and related		9,221,521	9,221,521				9,221,521
Facilities	528,466	173,846	702,312	30,808	41,969		775,089
Client services	438,177	85,906	524,083				524,083
Cost of direct benefits to donors						428,308	428,308
Depreciation	335,461	27,738	363,199	11,503	20,831		395,533
Utilities and insurance	201,573	73,912	275,485	21,893	26,601		323,979
Professional fees	22,852	26,466	49,318	23,738	45,806		118,862
Publicity, travel, and entertainment	44,837	33,258	78,095	4,137	6,896		89,128
Postage and mailings	16,770	11,161	27,931	194	37,303		65,428
Other operating expenses	289,246	164,106	453,352	45,642	64,677		563,671
Total Expenses by Function	**4,705,355**	**12,165,290**	**16,870,645**	**486,355**	**1,007,058**	**428,308**	**18,792,366**
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors						(428,308)	(428,308)
Total Expenses Included in Expense Section of the Statement of Activities	**$ 4,705,355**	**$ 12,165,290**	**$ 16,870,645**	**$ 486,355**	**$ 1,007,058**	**$**	**$ 18,364,058**
Percentage of Total Expenses	**26%**	**66%**	**92%**	**3%**	**5%**	**0%**	**100%**

See notes to financial statements.

Chrysalis Center
Statement of Functional Expenses
Year Ended December 31, 2016

	Program Services						
	Employment	Chrysalis Enterprises	Total	Management and General	Fundraising	Special Event Expense	Total
Payroll and related	$ 2,253,568	$ 1,683,788	$ 3,937,356	$ 355,300	$ 753,474	$	$ 5,046,130
Chrysalis Enterprises labor and related		6,793,984	6,793,984				6,793,984
Facilities	376,232	78,515	454,747	33,491	33,389		521,627
Client services	361,359	29,761	391,120	653	785		392,558
Cost of direct benefits to donors						389,152	389,152
Depreciation	280,619	52,264	332,883	16,416	23,331		372,630
Utilities and insurance	204,145	58,763	262,908	30,677	28,138		321,723
Professional fees	17,289	13,209	30,498	80,401	24,019		134,918
Publicity, travel, and entertainment	37,851	21,155	59,006	6,551	7,065		72,622
Postage and mailings	7,014	4,267	11,281	827	33,390		45,498
Other operating expenses	288,759	98,533	387,292	55,945	56,748		499,985
Total Expenses by Function	**3,826,836**	**8,834,239**	**12,661,075**	**580,261**	**960,339**	**389,152**	**14,590,827**
Less expenses included with revenues on the statement of activities							
Cost of direct benefits to donors						(389,152)	(389,152)
Total Expenses Included in Expense Section of the Statement of Activities	**$ 3,826,836**	**$ 8,834,239**	**$ 12,661,075**	**$ 580,261**	**$ 960,339**	**$**	**$ 14,201,675**
Percentage of Total Expenses	**27%**	**62%**	**89%**	**4%**	**7%**	**0%**	**100%**

See notes to financial statements.

Chrysalis Center
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 197,946	$ 75,457
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	395,533	372,630
(Gain) loss on investments	(8,418)	5,272
Changes in operating assets and liabilities:		
Transfers to board-designated net assets	(104,021)	
Grants receivable	227,789	(265,414)
Accounts receivable, net	(1,262,972)	20,330
Prepaid expenses	73,670	(131,722)
Deposits	(3,611)	(38,165)
Accounts payable	64,086	(48,084)
Accrued expenses	158,342	30,680
Deferred revenue	(9,189)	(10,257)
Net Cash Provided by (Used in) Operating Activities	**(270,845)**	**10,727**
Cash Flows from Investing Activities		
Purchases of investments	(179,820)	(351,487)
Proceeds from sale of investments	534,453	
Purchases of property and equipment	(55,543)	(180,387)
Net Cash Provided by (Used in) Investing Activities	**299,090**	**(531,874)**
Cash Flows from Financing Activities		
Transfers to board-designated net assets	104,021	
Net Cash Provided by Financing Activities	**104,021**	
Increase (Decrease) in Cash and Cash Equivalents	**132,266**	**(521,147)**
Cash and Cash Equivalents at Beginning of Year	**835,405**	**1,356,552**
Cash and Cash Equivalents at End of Year	**$ 967,671**	**$ 835,405**
Supplementary Disclosures		
Cash paid during the year for:		
Income taxes	$	$
Interest on lines of credit	$	$

See notes to financial statements.

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, Pacoima, and Santa Monica, with plans to open a new center in Anaheim by the end of 2018. Program services offered by the Organization consist of the following:

The Core Employment Program offers a curriculum of job readiness classes, case management, resume and interview preparation, job application assistance, and supplemental supports, including mental health services, legal assistance, support groups, interview clothing, transportation assistance, food, computers, phones and voicemail, and a mailing address.

Chrysalis Enterprises is a division of the Organization that provides paid transitional jobs to those clients with significant barriers to employment through in-house social enterprises. Chrysalis Works is a professional street maintenance company, providing work experience in trash and recycling pick-up, landscaping, graffiti removal, hauling, and street sweeping. Chrysalis Staffing is a temporary staffing agency that allows clients to re-enter the job market through short-term, full-time, and part-time work assignments in administrative office support, property management, and janitorial services, among others. Chrysalis Roads is a litter abatement, landscaping, and freeway maintenance business offering transitional employment to individuals re-entering from the criminal justice system.

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.

The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose, at any time, in performing the primary objectives of the Organization.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support. Temporarily restricted net assets at December 31, 2017 and 2016 consisted of amounts restricted to funding specific expenses in future periods.

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

Permanently restricted net assets—Net assets that are restricted by the donors for investment in perpetuity. The investment income generated from these funds is available for general support of the Organization's programs and operations. The Organization had no permanently restricted net assets at December 31, 2017 and 2016.

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, 2017 and 2016. 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.

Recently Adopted Accounting Principle—In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07 (ASU 2015-07), Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent).

The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient (NAV practical expedient). ASU 2015-07 has been adopted by the Organization for the year ended December 31, 2017.

Government Grants and Contracts—Revenues from government grants and contracts are reported as increases in unrestricted net assets 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.

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

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.

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.

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

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:

Furniture	5 years
Office equipment	7 years
Computer equipment	3 years
Vehicles	5 years
Leasehold improvements	5 years or term of lease (whichever is longer)
Buildings and improvements	40 years

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

Concentrations of Credit Risk—The Organization maintains cash balances at a high quality financial institution, American Business Bank, where accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. In the normal course of business, such cash balances are in excess of the FDIC insurance limits, but management deems the risk of loss due to these concentrations to be minimal. Grants receivable are principally with local foundations and government agencies. Accounts receivable are principally with local corporations, business improvement districts and government agencies. Collection losses related to 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.

The Organization's investments are supervised by the investment committee of the Board of Directors. In accordance with the Organization's Board-approved investment policy, the committee determines the composition of the investment portfolio. Management of the Organization has assessed the credit risk associated with its financial instruments held at December 31, 2017, and has determined that an allowance for potential losses due to credit risk is not necessary.

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services benefitted. Functional expenses have been allocated between program services, management and general, and fundraising expenses, based on an analysis of personnel time utilized for the related activities.

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

Donated Services—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, 2017, the Organization's network of volunteers donated 10,147 service hours to the organization. The Organization values these donated services at $295,176, based on an estimated rate of volunteer time of $29.09 per hour, as determined specifically for California as recently as 2017 by Independent Sector, a leading resource and research organization for the nonprofit industry.

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 2016 amounts have been reclassified to conform with the 2017 financial statement presentation.

Note 2—Investments

There were no investments held at December 31, 2017. Investments at December 31, 2016 consisted solely of shares in a fixed income mutual fund with a fair value of $346,215 and a cost basis of $351,486.

Note 3—Fair Value of Assets

In determining the fair value of investments, the Organization, in accordance with ASU 2015-07, utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Organization determines fair value based on assumption that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Organization at the measurement date.

Level 2—Valuations based on observable inputs (other than Level 1) such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment.

The Organization may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by the Organization to value private investments is the Net Asset Value (NAV)

Note 3—Fair Value Measurements—Continued

per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. The Organization had no assets or liabilities classified at NAV as a practical expedient during the years ended December 31, 2017 and 2016.

At December 31, 2016, assets and liabilities carried at fair value consist of investments, valued using end-of-day market prices that are considered Level 1 inputs.

In the normal course of business, the Organization reviews and may revise its asset allocation.

Note 4—Accounts Receivable, Net

Net accounts receivable consists of the following at December 31, 2017 and 2016:

	2017	2016
Chrysalis Enterprises		
Chrysalis Works	$ 1,132,341	$ 722,527
Chrysalis Roads	715,896	122,248
Chrysalis Staffing	282,517	315,816
Non-Chrysalis Enterprises	669,445	376,636
	2,800,199	1,537,227
Less allowance for uncollectible accounts	(10,000)	(10,000)
Net	**$ 2,790,199**	**$ 1,527,227**

Note 5—Property and Equipment, Net

Net property and equipment consist of the following at December 31, 2017 and 2016:

	2017	2016
Land	$ 1,300,000	$ 1,300,000
Building and improvements	652,878	652,878
Leasehold improvements	3,444,955	3,415,233
Furniture and equipment	152,917	149,233
Vehicles	57,253	30,283
Construction in progress		4,833
	5,608,003	5,552,460
Less accumulated depreciation	(1,893,138)	(1,497,605)
Net	**$ 3,714,865**	**$ 4,054,855**

Note 6—Lines of Credit

In October 2013, the Organization negotiated a bank line of credit, providing a maximum borrowing amount of $1,000,000, and is secured by the Organization's real and personal property. The line of credit bears interest at 3.25% as of the date of negotiation and is indexed at the bank's reference rate. Interest is payable monthly and the loan matures on October 1, 2018. As of December 31, 2017, the Organization had not drawn any funds on the line since the loan's inception and paid no interest during the years ended December 31, 2017 and 2016.

In November 2017, the Organization negotiated an additional bank line of credit at American Business Bank that provided a maximum of $600,000 and was secured by the Organization's real and personal property. The borrowing bears an initial interest rate of 3.5%, payable monthly, as of the date of negotiation, and is variably indexed at the bank's reference rate. The loan matures on December 15, 2018. As of December 31, 2017, the Organization had not drawn any funds on the line since the loan's inception and paid no interest during the year ended December 31, 2017.

Note 7—Commitments and Contingencies

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 39 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:

Year Ending December 31,	
2018	$ 724,074
2019	653,401
2020	539,965
2021	480,633
2022	359,056
Thereafter	222,691
Total	**$ 2,979,820**

Rental expense related to the above leases for the years ended December 31, 2017 and 2016 was approximately $600,000 and $370,000, 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.

From time to time, the Organization is subject to litigation that arises in the normal course of conducting its operations. In management's opinion, the resolution of litigation matters, if any, would not have a material effect on the financial position of the Organization at December 31, 2017 and 2016.

Note 8—Board-Designated Net Assets

Board-designated net assets are voluntary, board-approved segregations of unrestricted net assets 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 year ended December 31, 2017, the Board approved designations to the Fund of $104,021. No amounts were designated to or released from the Fund during the year ended December 31, 2016. At December 31, 2017 and 2016, the total of the Fund, including interest and dividend income and investment gains and losses, was $1,318,651 and $1,199,776, respectively.

Note 9—Temporarily Restricted Net Assets

For contributions that have been temporarily restricted by donors for major capital projects, the Organization's Board of Directors has adopted the policy of reclassifying these restricted contributions to unrestricted net assets over the depreciable life of the capital project.

During the period from 2011 through 2013, the Organization raised $1,869,231 for leasehold improvements to its Downtown Los Angeles facilities. Construction began in 2012, and was completed in 2013. In 2013, in accordance with its policy regarding contributions restricted to capital projects, the Organization began to release the related temporarily restricted contributions for this project to unrestricted net assets, over the 117 months of the remaining estimated life of the leasehold improvements. During the years ended December 31, 2017 and 2016, net assets released from temporary restrictions related to this capital project totaled $207,692 each year, respectively.

During the period from 2013 through 2014, the Organization raised $956,500 for leasehold improvements to its San Fernando Valley facilities. Construction began in 2013 and was completed in 2014. In 2014, in accordance with its policy regarding contributions restricted to capital projects, the Organization began to release the related temporarily restricted contributions for this project to unrestricted net assets over the 117 months of the remaining estimated life of the leasehold improvements. During the years ended December 31, 2017 and 2016, net assets released from temporary restrictions related to this capital project totaled $98,109 each year, respectively.

The reclassifications of restricted contributions to unrestricted net assets over the depreciable life of the Downtown Los Angeles and San Fernando Valley capital projects are reported on the statement of activities as net assets released from restrictions.

Note 9—Temporarily Restricted Net Assets—Continued

Temporarily restricted net assets at December 31, 2017 and 2016 consist of the following:

	2017	2016
Capital projects	$ 1,743,575	$ 2,064,760
Program services support	452,536	452,371
Totals	**$ 2,196,111**	**$ 2,517,131**

Note 10—Recent Accounting Pronouncements

Leases—In February 2016, the Financial Accounting Standards Board (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 the Organization in 2020; early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Net Assets Presentation—In August 2016, FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for Chrysalis Center in 2018. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Revenue Recognition—In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, 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. The guidance is currently effective for Chrysalis Center in 2019 (early adoption is not permitted). The guidance permits the use of either a

Note 10—Recent Accounting Pronouncements—Continued

retrospective or cumulative effect transition method. The Organization is currently evaluating the impact that the adoption of ASU 2014-09 will have on its financial statements.

Note 11—Subsequent Events

Management evaluated all activities of Chrysalis Center through September 12, 2018, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.