Audited Financial Statements

CHRYSALIS

a nonprofit organization Changing Lives Through Jobs

December 31, 2013

Quigley & Miron

Chrysalis Center
Audited Financial Statements
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December 31, 2013 and 2012

Quigley & Miron

Certified Public Accountants

Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

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

Suite 317
528 Arizona Avenue
Santa Monica, California 90401

Telephone: (310) 394-6687
Facsimile: (310) 394-6027

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, 2013 and 2012, 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, 2013 and 2012, 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.

Quigley & Miron

Los Angeles, California
September 3, 2014

Chrysalis Center
Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 1,894,469	$ 1,220,516
Grants receivable	214,139	187,189
Accounts receivable, net—Note 2	759,871	801,987
Prepaid expenses	112,166	94,912
Total Current Assets	**2,980,645**	**2,304,604**
Non-Current Assets		
Deposits	35,892	35,892
Property and equipment, net—Note 3	3,874,205	3,629,887
Total Non-Current Assets	**3,910,097**	**3,665,779**
Total Assets	**$ 6,890,742**	**$ 5,970,383**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 89,496	$ 64,872
Accrued expenses	263,640	165,640
Deferred revenue	92,308	109,762
Note payable, current portion—Note 5		50,000
Total Current Liabilities	**445,444**	**390,274**
Note payable, net of current portion—Note 5		45,593
Total Liabilities	**445,444**	**435,867**
Commitments—Note 7		
Net Assets		
Unrestricted		
Undesignated	2,896,935	2,911,818
Board-Designated Reserve and Capital Improvement Fund—Note 8	901,198	492,419
Total Unrestricted Net Assets	**3,798,133**	**3,404,237**
Temporarily restricted—Note 9	2,647,165	2,130,279
Total Net Assets	**6,445,298**	**5,534,516**
Total Liabilities and Net Assets	**$ 6,890,742**	**$ 5,970,383**

See notes to financial statements.

Chrysalis Center
Statement of Activities
Year Ended December 31, 2013

	Unrestricted				
	Undesignated	Board-Designated	Total	Temporarily Restricted	Total
Public Support					
Contributions	$ 663,601	$	$ 663,601	$	$ 663,601
Foundations and corporations	1,352,114		1,352,114	136,159	1,488,273
Capital Campaign	7,692		7,692	800,000	807,692
Governmental agencies	535,668		535,668	284,115	819,783
Special events, net—Note 10	1,212,308		1,212,308		1,212,308
Total Public Support	**3,771,383**		**3,771,383**	**1,220,274**	**4,991,657**
Revenue					
Chrysalis Enterprises	6,069,691		6,069,691		6,069,691
Interest and other income	3,544	432	3,976		3,976
Total Revenue	**6,073,235**	**432**	**6,073,667**		**6,073,667**
Reclassifications					
Net assets released from restrictions	703,388		703,388	(703,388)	
Transfers to board-designated net assets—Note 8	(408,347)	408,347			
Total Reclassifications	**295,041**	**408,347**	**703,388**	**(703,388)**	
Total Public Support, Revenue, and Net Assets After Reclassifications	**10,139,659**	**408,779**	**10,548,438**	**516,886**	**11,065,324**
Expenses					
Program services					
Employment	2,740,571		2,740,571		2,740,571
Chrysalis Enterprises	6,489,195		6,489,195		6,489,195
Total Program Services	**9,229,766**		**9,229,766**		**9,229,766**
Supporting services					
Management and general	90,055		90,055		90,055
Fundraising	834,721		834,721		834,721
Total Supporting Services	**924,776**		**924,776**		**924,776**
Total Expenses	**10,154,542**		**10,154,542**		**10,154,542**
Change in Net Assets	**(14,883)**	**408,779**	**393,896**	**516,886**	**910,782**
Net Assets at Beginning of Year	**2,911,818**	**492,419**	**3,404,237**	**2,130,279**	**5,534,516**
Net Assets at End of Year	**$ 2,896,935**	**$ 901,198**	**$ 3,798,133**	**$ 2,647,165**	**$ 6,445,298**

See notes to financial statements.

Chrysalis Center
Statement of Activities
Year Ended December 31, 2012

	Unrestricted				
	Undesignated	Board-Designated	Total	Temporarily Restricted	Total
Public Support					
Contributions	$ 551,460	$	$ 551,460	$	$ 551,460
Foundations and corporations	1,175,097		1,175,097	390,255	1,565,352
Capital Campaign				510,000	510,000
Governmental agencies	558,383		558,383	284,116	842,499
Special events, net—Note 10	1,040,836		1,040,836		1,040,836
Total Public Support	**3,325,776**		**3,325,776**	**1,184,371**	**4,510,147**
Revenue					
Chrysalis Enterprises	5,151,593		5,151,593		5,151,593
Interest and other income	2,767		2,767		2,767
Total Revenue	**5,154,360**		**5,154,360**		**5,154,360**
Reclassifications					
Net assets released from restrictions	489,768		489,768	(489,768)	
Total Reclassifications	**489,768**		**489,768**	**(489,768)**	
Total Public Support, Revenue, and Net Assets After Reclassifications	**8,969,904**		**8,969,904**	**694,603**	**9,664,507**
Expenses					
Program services					
Employment	2,415,755		2,415,755		2,415,755
Chrysalis Enterprises	5,517,172		5,517,172		5,517,172
Total Program Services	**7,932,927**		**7,932,927**		**7,932,927**
Supporting services					
Management and general	74,262		74,262		74,262
Fundraising	833,242		833,242		833,242
Total Supporting Services	**907,504**		**907,504**		**907,504**
Total Expenses	**8,840,431**		**8,840,431**		**8,840,431**
Change in Net Assets	**129,473**		**129,473**	**694,603**	**824,076**
Net Assets at Beginning of Year	**2,782,345**	**492,419**	**3,274,764**	**1,435,676**	**4,710,440**
Net Assets at End of Year	**$ 2,911,818**	**$ 492,419**	**$ 3,404,237**	**$ 2,130,279**	**$ 5,534,516**

See notes to financial statements.

Chrysalis Center
Statements of Functional Expenses
Years Ended December 31, 2013 and 2012

	Program Services			Supporting Services			
	Employment	Chrysalis Enterprises	Total	Management and General	Fundraising	Total	Total
2013:							
Payroll and related	$ 1,598,042	$ 1,298,269	$ 2,896,311	$ 48,189	$ 665,977	$ 714,166	$ 3,610,477
Chrysalis Enterprises labor and related		4,869,472	4,869,472				4,869,472
Facilities	266,994	69,092	336,086	3,153	30,070	33,223	369,309
Client services	277,991	696	278,687				278,687
Utilities and insurance	133,540	62,181	195,721	3,711	16,407	20,118	215,839
Depreciation	129,929	46,872	176,801	1,426	18,159	19,585	196,386
Professional fees	25,220	12,652	37,872	15,057	10,530	25,587	63,459
Postage and mailings	22,975	6,480	29,455	1,294	32,012	33,306	62,761
Publicity, travel, and entertainment	19,457	23,758	43,215	6,583	12,544	19,127	62,342
Other operating expenses	266,423	99,723	366,146	10,642	49,022	59,664	425,810
Total Expenses	**$ 2,740,571**	**$ 6,489,195**	**$ 9,229,766**	**$ 90,055**	**$ 834,721**	**$ 924,776**	**$ 10,154,542**
Percentage of Total Expenses	**27%**	**64%**	**91%**	**1%**	**8%**	**9%**	**100%**

	Program Services			Supportive Services			
	Employment	Chrysalis Enterprises	Total	Management and General	Fundraising	Total	Total
2012:							
Payroll and related	$ 1,447,676	$ 1,199,664	$ 2,647,340	$ 56,356	$ 716,564	$ 772,920	$ 3,420,260
Chrysalis Enterprises labor and related	3,036	4,067,712	4,070,748	130	1,801	1,931	4,072,679
Facilities	189,576	43,043	232,619	1,746	23,148	24,894	257,513
Client services	290,532	7,122	297,654				297,654
Utilities and insurance	129,135	45,767	174,902	3,503	13,351	16,854	191,756
Depreciation	32,373	15,415	47,788	216	647	863	48,651
Professional fees	28,045	25,629	53,674	2,660	9,575	12,235	65,909
Postage and mailings	16,131	11,480	27,611	245	27,131	27,376	54,987
Publicity, travel, and entertainment	21,999	17,261	39,260	565	12,246	12,811	52,071
Other operating expenses	257,252	84,079	341,331	8,841	28,779	37,620	378,951
Total Expenses	**$ 2,415,755**	**$ 5,517,172**	**$ 7,932,927**	**$ 74,262**	**$ 833,242**	**$ 907,504**	**$ 8,840,431**
Percentage of Total Expenses	**27%**	**63%**	**90%**	**1%**	**9%**	**10%**	**100%**

See notes to financial statements.

Chrysalis Center
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ 910,782	$ 824,076
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	196,386	48,651
Changes in operating assets and liabilities:		
Grants receivable	(26,950)	46,658
Accounts receivable, net	42,116	(24,036)
Prepaid expenses	(17,254)	(12,321)
Deposits		(4,771)
Accounts payable	24,624	(46,137)
Accrued expenses	98,000	43,399
Deferred revenue	(17,454)	(28,883)
Net Cash Provided by Operating Activities	**1,210,250**	**846,636**
Cash Flows from Investing Activities		
Purchases of property and equipment	(440,704)	(1,584,098)
Net Cash Used in Investing Activities	**(440,704)**	**(1,584,098)**
Cash Flows from Financing Activities		
Payments of note payable	(95,593)	(50,000)
Repayment of capital lease obligation—Note 4		(6,769)
Net Cash Used in Financing Activities	**(95,593)**	**(56,769)**
Increase (Decrease) in Cash and Cash Equivalents	**673,953**	**(794,231)**
Cash and Cash Equivalents at Beginning of Year	**1,220,516**	**2,014,747**
Cash and Cash Equivalents at End of Year	**$ 1,894,469**	**$ 1,220,516**
Supplementary Disclosures		
Income taxes paid	$	$
Interest paid on note payable	$ 3,989	$ 7,161
Interest paid on capital lease	$	$ 370
Acquisition of vehicle through capital lease obligation	$	$ 30,283

See notes to financial statements.

Chrysalis Center
Notes to Financial Statements
December 31, 2013 and 2012

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 Employment Program offers a curriculum of job search classes, case management, resume and interview preparation, the use of phone and computer facilities, and clothing and transportation resources. Chrysalis Enterprises is a division of the Organization that provides transitional employment programs through operating social enterprises. Chrysalis Works is a social enterprise that contracts with Business Improvement Districts for street maintenance. Chrysalis Staffing is a temporary staffing agency that provides experience and temp-to-perm opportunities for work-ready clients. Chrysalis operates centers in Downtown Los Angeles, Santa Monica, and the northeast San Fernando Valley.

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, 2013 and 2012 consisted of amounts restricted to funding specific expenses in future periods.

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, 2013 and 2012.

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.

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

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, 2013 and 2012. Generally, the Organization's information returns remain open for examination three (federal) or four (state of California) years from the date of filing.

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

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

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

Chrysalis Enterprises—Revenue from Chrysalis Enterprises is recognized at the time services are provided.

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.

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

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. Additionally, the bank participated in the FDIC's Transaction Account Guarantee Program which provided full coverage on qualifying transaction accounts until the Program's expiration in December 2012. 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 and business improvement districts. 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.

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.

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. However, a substantial number of volunteers have donated a significant number of hours devoted to the Organization's program services, management and general, and fundraising activities.

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 2012 amounts have been reclassified to conform with the 2013 financial statement presentation.

Note 2—Accounts Receivable, Net

Accounts receivable, net consists of the following at December 31, 2013 and 2012:

	2013	2012
Chrysalis Staffing	$ 132,017	$ 126,665
Chrysalis Works	326,247	477,108
General	311,607	206,748
	769,871	810,521
Less allowance for uncollectible accounts	(10,000)	(8,534)
Net	**$ 759,871**	**$ 801,987**

Note 3—Property and Equipment, Net

Net property and equipment consist of the following at December 31, 2013 and 2012:

	2013	2012
Land	$ 1,300,000	$ 1,300,000
Building and improvements	652,879	652,879
Furniture and equipment	96,592	72,491
Leasehold improvements	2,243,178	1,850,141
Vehicles	30,283	30,283
Construction in progress	23,566	
	4,346,498	3,905,794
Less accumulated depreciation	(472,293)	(275,907)
Net	**$ 3,874,205**	**$ 3,629,887**

Included in the above amounts are the cost and accumulated depreciation of a vehicle held by the Organization under the terms of a capital lease agreement as follows:

	2013	2012
Vehicle	$ 30,283	$ 30,283
Less accumulated depreciation	(30,283)	(30,283)
Net	**$**	**$**

Note 4—Capital Lease Obligation

The Organization had a capital lease agreement with a vehicle leasing company for a single vehicle through November 2012, requiring monthly payments of $649, including interest at the nominal annual percentage rate of 10.76%.

Note 5—Note Payable

In November 2009, the Organization negotiated a bank commercial term loan with American Business Bank for $250,000, secured by the Organization's real and personal property. The loan bears interest at 5.75%, payable monthly, and matures on December 31, 2014. The monthly loan principal payment is $4,167.

Principal and interest paid for the years ended December 31, 2013 and 2012 were $95,593 and $3,989, and $50,000 and $7,161, respectively. The loan was fully paid in 2013.

Note 6—Line of Credit

In November 2009, the Organization negotiated a bank line of credit at American Business Bank that provided a maximum of $500,000 and was secured by the Organization's real and personal property. The borrowing bore interest at 3.75% as of the date of negotiation and was indexed at the bank's reference rate plus 0.50%. Interest was payable monthly and the loan was set to mature on November 25, 2014. As of December 31, 2013, 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, 2013. In October 2013, the Organization renegotiated this bank line of credit, increasing the maximum borrowing amount to $1,000,000. The new 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, 2013, 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, 2013.

Note 7—Commitments

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 thirteen 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,		
2014	$	323,946
2015		340,189
2016		321,018
2017		338,357
2018		321,085
Thereafter		1,321,478
Total	**$**	**2,966,073**

Rental expense related to the above leases for the years ended December 31, 2013 and 2012 was approximately $275,000 and $200,000, respectively.

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 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 Reserve and Capital Improvement Fund based on the Organization's surplus cash position and projected cash needs.

During the year ended December 31, 2013, the Board of Directors approved designations to the Fund of an additional $408,000. No releases from the Fund were approved during 2013 or 2012. At December 31, 2013, the total of the Fund, including earned interest, was $901,198.

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 2011 and 2012, the Organization raised $1,775,000 for leasehold improvements to its Downtown Los Angeles facilities. Construction began on January 3, 2012, and was completed on March 31, 2013. In April 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 year ended December 31, 2013, net assets released from temporary restrictions related to capital projects totaled $155,769. There were no releases during the year ended December 31, 2012. These reclassifications are reported on the statement of activities as net assets released from restrictions.

Temporarily restricted net assets at December 31, 2013 and 2012 consist of the following:

	2013	**2012**
Capital projects	$ 2,319,231	$ 1,675,000
Program services support	327,934	455,279
Totals	**$ 2,647,165**	**$ 2,130,279**

Note 10—Special Events, Net

Net special events income for the years ended December 31, 2013 and 2012, consists of the following:

	Income	Less Related Expenses	Net
2013:			
Butterfly Ball	$ 1,343,674	$ (260,135)	$ 1,083,539
Fall Event	131,911	(21,721)	110,190
Other events	18,855	(276)	18,579
Totals	**$ 1,494,440**	**$ (282,132)**	**$ 1,212,308**
2012:			
Butterfly Ball	$ 1,167,163	$ (241,574)	$ 925,589
Fall Event	133,421	(25,942)	107,479
Other events	10,333	(2,565)	7,768
Totals	**$ 1,310,917**	**$ (270,081)**	**$ 1,040,836**

Note 11—Subsequent Events

Subsequent events were evaluated through September 3, 2014, which is the date the financial statements were available to be issued, and it was concluded that no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.