



COCOONHOUSE
Because Every Child Needs A Home

Financial Statements
for the Year Ended June 30, 2014
(With Comparative Totals for 2013)
and Independent Auditors' Report

COCOON HOUSE
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WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cocoon House
Everett, Washington

We have audited the accompanying financial statements of Cocoon House (a Washington nonprofit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Cocoon House as of June 30, 2014, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Cocoon House's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Watson & McDermott, PLLC

November 13, 2014

COCOON HOUSE
Statement of Financial Position
June 30, 2014
(With Comparative Totals for 2013)

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 280,662	\$ 226,314
Government grants receivable	259,887	240,745
Current portion of United Way contribution receivable	185,000	185,000
Current portion of other contributions receivable	155,803	215,000
Prepaid expenses and other	28,525	41,418
TOTAL CURRENT ASSETS	909,877	908,477
United Way contribution receivable, less current portion	179,612	348,928
Other contributions receivable, less current portion	234,280	321,795
Investments	719,826	621,941
Assets held in trust - endowment	468,814	411,167
Property and equipment, net	3,049,617	3,162,177
TOTAL ASSETS	\$ 5,562,026	\$ 5,774,485
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 26,973	\$ 73,840
Accrued liabilities	169,696	132,907
Current portion of long-term debt	14,916	14,916
Current portion of capital lease obligation	11,606	10,629
TOTAL CURRENT LIABILITIES	223,191	232,292
Long-term debt, less current portion	557,392	572,308
Capital lease obligation, less current portion	22,937	34,543
Forgivable loans	1,699,600	1,761,100
TOTAL LIABILITIES	2,503,120	2,600,243
NET ASSETS		
Unrestricted:		
Designated by board for long-term investment - endowment	405,026	355,222
Other unrestricted	1,630,798	1,546,111
Total unrestricted	2,035,824	1,901,333
Temporarily restricted net assets	969,587	1,219,414
Permanently restricted net assets	53,495	53,495
TOTAL NET ASSETS	3,058,906	3,174,242
TOTAL LIABILITIES AND NET ASSETS	\$ 5,562,026	\$ 5,774,485

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Statement of Activities
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
OPERATING ACTIVITIES					
Public Support and Revenue					
Contracts and grants	\$ 1,763,585			\$ 1,763,585	\$ 1,523,522
Contributions	785,302	\$ 182,472		967,774	1,717,234
In-kind contributions	70,360			70,360	46,805
Investment income	148,649	7,843		156,492	4,079
Other revenue	1,776			1,776	3,042
Net assets released from restriction	<u>456,215</u>	<u>(456,215)</u>			
Total Public Support and Revenue	<u>3,225,887</u>	<u>(265,900)</u>		<u>2,959,987</u>	<u>3,294,682</u>
Operating expenses					
Program Services					
Housing	1,521,907			1,521,907	1,252,239
Outreach	433,587			433,587	482,498
Prevention	<u>342,117</u>			<u>342,117</u>	<u>349,403</u>
Program Services	<u>2,297,611</u>			<u>2,297,611</u>	<u>2,084,140</u>
Supporting services					
Management and general	362,060			362,060	312,881
Fundraising	<u>354,271</u>			<u>354,271</u>	<u>401,007</u>
Total operating expenses	<u>3,013,942</u>			<u>3,013,942</u>	<u>2,798,028</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE DEPRECIATION					
	211,945	(265,900)		(53,955)	496,654
Depreciation	<u>142,960</u>			<u>142,960</u>	<u>150,406</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES					
	<u>68,985</u>	<u>(265,900)</u>		<u>(196,915)</u>	<u>346,248</u>
NONOPERATING ACTIVITIES					
Capital contributions		16,073		16,073	10,000
Amortization of forgivable debt and interest	<u>65,506</u>			<u>65,506</u>	<u>63,281</u>
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES					
	<u>65,506</u>	<u>16,073</u>		<u>81,579</u>	<u>73,281</u>
CHANGE IN NET ASSETS					
	134,491	(249,827)		(115,336)	419,529
NET ASSETS, BEGINNING OF YEAR	<u>1,901,333</u>	<u>1,219,414</u>	<u>\$ 53,495</u>	<u>3,174,242</u>	<u>2,754,713</u>
NET ASSETS, END OF YEAR	<u>\$ 2,035,824</u>	<u>\$ 969,587</u>	<u>\$ 53,495</u>	<u>\$ 3,058,906</u>	<u>\$ 3,174,242</u>

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Statement of Functional Expenses
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)

	Housing	Outreach	Prevention	Total Program Services	Management and General	Fundraising	Total 2014	Total 2013
Salaries and wages	\$ 970,326	\$ 282,233	\$ 239,777	\$ 1,492,336	\$ 255,390	\$ 178,584	\$ 1,926,310	\$ 1,632,166
Payroll taxes and benefits	233,850	54,930	53,352	342,132	48,356	24,864	415,352	413,825
	<u>1,204,176</u>	<u>337,163</u>	<u>293,129</u>	<u>1,834,468</u>	<u>303,746</u>	<u>203,448</u>	<u>2,341,662</u>	<u>2,045,991</u>
Supplies	46,393	7,088	3,641	57,122	6,922	33,260	97,304	71,596
Communications	16,330	9,949	1,328	27,607	1,724	6,388	35,719	37,984
Professional fees	37,253	19,210	23,569	80,032	8,623	40,134	128,789	235,529
Travel	6,885	7,753	1,537	16,175	805	1,078	18,058	23,558
Insurance	25,596	6,489	4,329	36,414	3,959	3,005	43,378	41,339
Occupancy	62,830	9,106	8,335	80,271	6,175	5,225	91,671	124,923
Assistance to individuals	25,287	9,792	871	35,950	452	351	36,753	31,494
Food and beverage	47,808	6,495	2,529	56,832	196	40,963	97,991	85,759
In-kind supplies and services	32,463	10,788	450	43,701	22,060	4,599	70,360	52,492
Staff training	6,042	2,301	564	8,907	2,064	2,573	13,544	12,081
Dues/Fees/Other	10,844	7,453	1,835	20,132	5,334	13,247	38,713	35,282
	<u>1,521,907</u>	<u>433,587</u>	<u>342,117</u>	<u>2,297,611</u>	<u>362,060</u>	<u>354,271</u>	<u>3,013,942</u>	<u>2,798,028</u>
Depreciation	125,706	12,413	1,144	139,263	2,923	774	142,960	150,406
Total expenses	<u>\$ 1,647,613</u>	<u>\$ 446,000</u>	<u>\$ 343,261</u>	<u>\$ 2,436,874</u>	<u>\$ 364,983</u>	<u>\$ 355,045</u>	<u>\$ 3,156,902</u>	<u>\$ 2,948,434</u>

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Statement of Cash Flows
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities		
Increase (decrease) in net assets	\$ (115,336)	\$ 419,529
Depreciation	142,960	150,406
Capital contributions	(36,220)	(10,000)
Net realized and unrealized gains on investments	(134,706)	(4,079)
Forgiven debt	(61,500)	(63,281)
(Increase) decrease in operating assets:		
Government grants receivable	(19,142)	(12,078)
United Way pledge receivable	169,316	(345,323)
Promises to give	146,712	(171,870)
Other receivables		1,013
Prepaid expenses and other	12,893	(4,169)
Increase (decrease) in operating liabilities:		
Accounts payable	(46,867)	26,132
Accrued liabilities	<u>36,789</u>	<u>32,183</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>94,899</u>	<u>18,463</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments and reserves	93,742	1,210,589
Purchases of investments and reinvested dividends	(114,568)	(1,029,029)
Purchases of property and equipment	<u>(30,400)</u>	<u>(119,455)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(51,226)</u>	<u>62,105</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for refundable advances, long-term		62,966
Principal payments on long-term debt and capital lease obligation	(25,545)	(24,650)
Proceeds from capital contributions	<u>36,220</u>	<u>10,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>10,675</u>	<u>48,316</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	54,348	128,884
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>226,314</u>	<u>97,430</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 280,662</u>	<u>\$ 226,314</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 3,565</u>	<u>\$ 4,459</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Forgiven debt and interest	<u>\$ 65,506</u>	<u>\$ 63,281</u>

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 1 - NATURE OF THE AGENCY

The mission of Cocoon House (the Agency) is to empower young people, families and the community to break the cycle of homelessness through outreach, housing and prevention. To carry out this mission the Agency has developed a continuum of services to serve homeless, at-risk and highly disconnected youth and their families in Snohomish County.

Housing Services

Emergency Shelter: The Agency operates two emergency shelters for teens 13-17, one in Everett with 8 beds and one in Monroe with 6 beds.

Transitional Housing: The Agency operates a transitional housing program in Everett, providing 20 beds to teens 13-17. There is a second transitional housing program in Arlington, providing 5 beds to teen mothers 13-17 and their children and infants.

Available services at housing programs include intensive case management, drug and alcohol assessment, counseling and treatment, mental health counseling, education support, job readiness training, parenting support and education (as needed for teen parents) and life skills training as well as housing, food, and basic needs for youth who have no other housing options.

Street Outreach

Street Outreach Program: The Street Outreach Program features mobile outreach and a teen drop-in center to engage and assist youth ages 12-24 in Snohomish County. Staff conducts street outreach, street level case management, ongoing intensive case management and connect youth to a multitude of resources in the community including onsite drug and alcohol treatment and connection with WorkSource at the drop-in center.

Prevention Services for Parents and Teens

Project SAFE: Cocoon House Project SAFE is focused on helping parents develop skills to strengthen families and ultimately prevent youth from disconnecting with the family. Services include: phone consultation, parenting classes, support groups and resources and referrals for parents of teens 11-20.

WayOUT: WayOUT is an interactive workshop for teens and parents or guardians, designed specifically to serve low-risk youth offenders referred by the juvenile courts. Today the program receives referrals from a wide variety of agencies.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of financial presentation

The Agency reports information regarding its financial position and activities according to three classes of net assets based on the absence or existence and nature of donor-imposed restrictions:

- ◆ Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- ◆ Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Agency pursuant to those stipulations or that expire with the passage of time and unappropriated earnings on permanently restricted net assets.
- ◆ Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be held in perpetuity, allowing only the income from the assets to be expended.

Restricted and unrestricted revenue and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Cash and cash equivalents

For the purpose of the statement of cash flows, the Agency considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of 90 days or less at the time of purchase. Excluded from this definition of cash equivalents are amounts in the investment and reserve portfolios.

At times cash deposits exceed the federally insured limits of the financial institution and expose the Agency to credit risk. At June 30, 2014, there were no balances over the federally insured limits. The Company believes it is not exposed to any significant risk of loss on these funds.

Grants receivable

Grants receivable are stated at unpaid balances. Management provides for probable uncollectible amounts through a charge to bad debt 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 receivables. Management has deemed all amounts to be collectable at June 30, 2014; accordingly no allowance for doubtful accounts has been recorded.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair value of financial assets and liabilities

Financial Accounting Standards Board Codification, Subtopic 820-10, *Fair Value Measurements and Disclosures*, establishes a hierarchy for measuring fair value utilizing a three-level valuation based on observable and unobservable inputs. Observable inputs are based on market data obtained from independent sources. Unobservable inputs reflect market assumptions based on the best information available. The fair value hierarchy prioritizes the inputs as follows:

- Level 1 inputs are based on unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs include quoted prices in active markets for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable.
- Level 3 inputs are based on value drivers that are unobservable.

See Note 5 for a discussion of assets measured at fair value on a recurring basis.

Government contracts and grants

The Agency recognizes revenue from cost reimbursable contracts when eligible costs are incurred. Revenue from performance-based contracts is recognized when performance is completed. When the contract revenue recognized exceeds cash advances received, a receivable is recorded. When cash advances exceed the contract revenue recognized, a liability, deferred revenue, is recorded.

Use of estimates

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

Functional expense classification and allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services benefited.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property, equipment and building improvements

Property, equipment and building improvements purchased by the Agency are stated at cost. Assets costing more than \$5,000 with an estimated useful life of greater than one year are capitalized. Replacements and major repairs are expensed. Depreciation is provided on the straight-line method over the assets' estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	15 - 39
Furniture and equipment	3 - 7
Vehicles	5

Impairment

The Agency reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in fiscal 2014.

Reserves

Reserves consist of funds internally set aside by the Agency for operation and maintenance of all its housing facility and shelters. During the year ended June 30, 2014, the reserves were re-designated for general use.

Donated goods and services

Donations of non-cash assets are recorded at their fair values in the period received. Donated services that create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values when received. During the year ended June 30, 2014, the Agency received donated sundries and retail gift cards valued at \$50,020 and information technology services valued at \$20,340.

In addition, the Association received donated services for education and cultural programs, administration and auction that do not meet the recognition requirements for presentation in the financial statements. Approximately 1,000 hours were contributed by volunteers during 2014.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income tax

Cocoon House is a Washington nonprofit corporation, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. The Agency's income tax filings are subject to examination by various taxing authorities. The Agency's open examination periods are 2010 and thereafter.

The Agency follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification Subtopic 740-10, *Income Taxes*. The Agency believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Comparative amounts

For comparative purposes, the financial statements include certain prior-year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

NOTE 3 - INVESTMENTS, RESERVES AND ASSETS HELD IN TRUST

Investments, reserves and assets held in trust consisted of the following at June 30,:

	<u>2014</u>	<u>2013</u>
<u>Investments</u>		
Mutual funds	\$ 708,635	\$ 609,899
Cash	<u>11,191</u>	<u>12,042</u>
	<u>\$ 719,826</u>	<u>\$ 621,941</u>
<u>Assets held in trust:</u>		
<u>Board-designated endowment</u>		
Greater Everett Community Trust	\$ 405,026	\$ 355,222
<u>Donor-restricted endowment</u>		
Greater Everett Community Trust	<u>63,788</u>	<u>55,945</u>
	<u>\$ 468,814</u>	<u>\$ 411,167</u>

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 3 - INVESTMENTS, RESERVES AND ASSETS HELD IN TRUST, CONTINUED

Investment return for the year ended June 30, 2014, consisted of the following:

	Non- Endowment Funds	Assets Held in Trust	Total
Dividends and interest	\$ 20,826	\$	\$ 20,826
Net realized and unrealized gains and losses	78,019	57,647	135,666
	<u>\$ 98,845</u>	<u>\$ 57,647</u>	<u>\$ 156,492</u>

Investment income is reported net of related investment expenses in the statement of activities. Investment expenses were \$5,326 for the year ended June 30, 2014.

NOTE 4 - ASSETS HELD IN TRUST

The Agency's endowment investments have been transferred to The Greater Everett Community Foundation (the Foundation) to be held in perpetuity, with the income to be used for current operations. These amounts are administered by the Foundation and are accounted for and designated by the Foundation as the Cocoon House Board Designated Endowment Fund and Cocoon House Donor Designated Endowment Fund.

Under the agreement between the Agency and the Foundation, the members of the Board of Directors of the Agency may make a written request for the return of these funds. The Foundation will return funds if it is deemed consistent with the mission and purposes of the Agency and the charitable and philanthropic purposes of The Foundation. However, the Foundation retains variance power over these funds.

NOTE 5 - FAIR VALUE MEASUREMENTS

The valuation methodologies used to measure fair value have been consistently applied. Assets and liabilities measured at fair value on a recurring basis have been classified in accordance with the fair value measurement hierarchy described in Note 2. As described in Note 4, the Agency has an interest in a portion of the Foundation's investment portfolio, but does not have a direct claim to a portion of each individual stock, bond or investment within the investment portfolio. FASB Accounting Standards Codification (FASC) Subtopic 820-10-20, *Fair Value Measurements and Disclosures*, notes that the unit of account determines what is being measured at fair value. The unit of account of an affiliated agency fund is at the aggregate level of the asset, not at the level of underlying investments held within the Foundation's investment portfolio.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 5 - FAIR VALUE MEASUREMENTS, CONTINUED

Since the Foundation investment portfolio is comprised of many different investments with varying levels of observable inputs, the valuation of the entire portfolio cannot be directly corroborated with observable market data. Therefore, the Agency reports the funds as falling within Level 3 of the fair value measurement standards.

The following presents information for investments classified within Level 3 for the year ended June 30, 2014:

Balance, July 1, 2013	\$ 411,167
Investment income	65,284
Management fees	<u>(7,637)</u>
Balance, June 30, 2014	<u>\$ 468,814</u>
Change in unrealized gains or losses for the period included in the change in net assets for assets held at the end of the reporting period	<u>\$ 65,284</u>

The market value of all other investments was based on quoted prices in active markets for identical assets and falls within level 1 of the hierarchy.

NOTE 6 - PROMISES TO GIVE AND UNITED WAY PLEDGE RECEIVABLE

Unconditional promises to give that are expected to be collected in one year are stated at net realizable value. Unconditional promises to give that are expected to be collected in future years are stated at the present value of their estimated future cash flows. The discounts on those amounts are computed using a discount rate applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. During 2014, long-term receivables were discounted using a three percent annual rate. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are not included in support until the conditions are substantially met. The Agency provides for losses on promises to give using the allowance method. The allowance is based on past experience. It is the Agency's policy to charge off uncollectible promises to give when management determines the receivable will not be collected. Management believes that promises to give are fully collectible.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 6 - PROMISES TO GIVE AND UNITED WAY PLEDGE RECEIVABLE, CONTINUED

The promises to give and United Way receivable balances were as follows at June 30,:

	<u>2014</u>	<u>2013</u>
Due to be collected -		
In less than one year	\$ 340,803	\$ 400,000
One to five years	<u>431,500</u>	<u>720,481</u>
	772,303	1,120,481
Less discount	<u>(17,608)</u>	<u>(49,758)</u>
	<u>\$ 754,695</u>	<u>\$ 1,070,723</u>

At June 30, 2014, 72 percent of the Agency's net promises to give were from two donors.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following balances at June 30,:

	<u>2014</u>	<u>2013</u>
Land	\$ 516,279	\$ 516,279
Buildings and building improvements	3,526,412	3,517,159
Furniture and equipment	234,107	234,107
Vehicle	65,148	65,148
Construction in progress	<u>21,147</u>	<u> </u>
	4,363,093	4,332,693
Less depreciation	<u>(1,313,476)</u>	<u>(1,170,516)</u>
	<u>\$ 3,049,617</u>	<u>\$ 3,162,177</u>

NOTE 8 - UNEMPLOYMENT SELF INSURANCE

The Agency is self-insured for unemployment claims. At June 30, 2014, the agency recorded a liability of \$18,543, which is the maximum amount the Agency would pay for claims that have been filed based on reports provided by the State of Washington.

NOTE 9 - ENDOWMENT FUND

Permanently restricted net assets are donations restricted by the donor to be held in perpetuity, with the income to be used to support the Agency. At June 30, 2014, the Agency had one endowment fund.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 9 - ENDOWMENT FUND, CONTINUED

The Sarri Gilman Fund is a donor-restricted endowment that requires the Agency to maintain the corpus but allows it to spend the earnings for general purposes. The Agency's policy is to spend an appropriate investment income earned on the endowment in the year it is received.

The board-designated endowment fund consists of funds set aside for long-term purposes and placed in the custody of the Foundation, as described in Note 4.

The board of directors of the Agency has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence required by PMIFA. In accordance with PMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Agency and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Agency and
- (7) The investment policies of the Agency.

The following describes the net asset composition of the endowment funds at June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Sarri Gilman Endowment Fund		\$ 10,293	\$ 53,495	\$ 63,788
Board-designated endowment fund	\$ 405,026			405,026
Total	<u>\$ 405,026</u>	<u>\$ 10,293</u>	<u>\$ 53,495</u>	<u>\$ 468,814</u>

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 9 - ENDOWMENT FUND, CONTINUED

The following describes the changes in the endowment funds for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 355,222	\$ 2,450	\$ 53,495	\$ 411,167
Investment income (loss)	<u>49,804</u>	<u>7,843</u>	<u> </u>	<u>57,647</u>
Endowment net assets, end of year	<u>\$ 405,026</u>	<u>\$ 10,293</u>	<u>\$ 53,495</u>	<u>\$ 468,814</u>

NOTE 10 - FUNDRAISING EVENTS

The Agency conducted major fundraising events with the following activity for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Gross revenue	\$ 303,435	\$ 271,080
Direct expenses	<u>(80,550)</u>	<u>(75,565)</u>
	<u>\$ 222,885</u>	<u>\$ 195,515</u>

Gross revenue is included in contributions revenue in the statement of activities. Direct expenses are included in fundraising in the statements of activities and functional expenses.

NOTE 11 - LONG-TERM DEBT

Interest has not been imputed on the note payable that carries below-market rate interest as it is payable to a governmental entity or carries legal restrictions. The restrictions require the Agency to use the property for low-income housing.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 11 - LONG-TERM DEBT, CONTINUED

The note payable at June 30, was:

	2014	2013
Noninterest bearing note payable to State of Washington, Department of Community Development with annual principal payment of \$14,916; matures January 2049; contains a covenant running with the land limiting the use to low-income homeless youth and teen parent families for the term of the loan; any change in use, sale or refinance of the property before maturity would require repayment of the loan balance plus a pro-rata share of net proceeds/appreciation; collateralized by a deed of trust on the property with a carrying value of \$928,430	\$ 572,308	\$ 587,224
Less current portion	<u>(14,916)</u>	<u>(14,916)</u>
	<u>\$ 557,392</u>	<u>\$ 572,308</u>

Aggregate maturities of notes payable for the next five years and thereafter are as follows:

2015	\$	14,916
2016		14,916
2017		14,916
2018		14,916
2019		14,916
Thereafter		<u>482,812</u>
		<u>\$ 557,392</u>

NOTE 12 - FORGIVABLE LOANS

The Agency has received forgivable loans to help fund various facility projects. Under terms of the agreements, the proceeds must be used for the specific purpose intended in the loan documents.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - FORGIVABLE LOANS, CONTINUED

As management believes the conditions of forgiveness related to these loans are substantially met ratably over the terms of the agreements and that the Agency has the present intention and ability to maintain the conditions of forgiveness, the proceeds from these forgivable loans have been recognized as refundable advances and ratably recognized as revenue over the period of restricted use. The revenue is presented as release of refundable advances on the statement of activities. The original loan balance plus a possible pro-rata share of net proceeds/appreciation or accrued interest, if any, is generally due if the Agency changes the use of the facilities from the intended purpose or if the property is sold or refinanced and removed from acceptable use before the period of restricted use ends. Each forgivable loan has specific agreements and covenants surrounding the use of the property and the terms of forgiveness depend on adherence to the terms of the agreements.

Forgivable loans consisted of the following at June 30,:

	2014	2013
<u>Complex:</u>		
Note payable to Snohomish County for \$258,334; with no interest accruing and no principal payments due if Agency uses the property to provide transitional housing for youth; matures June 2035; collateralized by a deed of trust on the property with a carrying value of \$899,171	\$ 135,625	\$ 142,084
Note payable to Snohomish County Trust Fund for \$250,000; with no interest accruing and no principal payments due if Agency continuously uses the property for low-income youth transitional housing; matures April 2044; collateralized by a deed of trust on the property with a carrying value of \$899,171; subordinated to the note payable to the State of Washington (see Note 11)	150,000	155,000
<u>Central Shelter:</u>		
Note payable to Snohomish County for \$160,366; with no interest accruing and no principal payments due if the Agency continuously uses the property to provide short-term shelter and supportive services for homeless youth; matures June 2020; collateralized by a deed of trust on the property with a carrying value of \$259,443	48,110	56,128

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - FORGIVABLE LOANS, CONTINUED

	2014	2013
<u>North Shelter</u>		
Note payable to State of Washington Department of Community, Trade, and Economic Development for \$261,306; with no interest accruing and no principal payments due if the Agency continuously uses the property to provide emergency shelter for low-income youths between the ages of 13 and 17; matures December 2045; collateralized by a deed of trust on the property with a carrying value of \$451,704	\$ 202,514	\$ 209,046
Note payable to Snohomish County for \$284,315; with no interest accruing and no principal payments due if the Agency continuously uses the property to provide emergency shelter for pregnant teens between the ages of 13 and 17; matures December 2045; collateralized by a deed of trust on the property with a carrying value of \$451,704	220,343	227,453
<u>East Shelter</u>		
Note payable to State of Washington Department of Community, Trade, and Economic Development for \$842,349; with no interest accruing and no principal payments due if the Agency continuously uses the property to provide emergency shelter for low-income youth; matures December 2049; collateralized by a deed of trust on the property with a carrying value of \$937,003	742,913	763,974
Note payable to Snohomish County for \$95,640; with no interest accruing and no principal payments due if the Agency continuously uses the property to provide emergency shelter for low-income youth; matures September 2049; collateralized by a deed of trust on the property with a carrying value of \$937,003	85,709	88,100
<u>U-Turn Resource Drop-in Center</u>		
Note payable to City of Everett for \$63,269; bears interest at 3% per annum; with no interest and no principal payments due if the Agency continuously uses the property to provide housing for low-income youth; matures May 2037; collateralized by a deed of trust on the property with a carrying value of \$383,445	57,786	60,316

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - FORGIVABLE LOANS, CONTINUED

	2014	2013
<u>U-Turn Resource Drop-in Center, continued</u>		
Note payable to City of Everett for \$60,000; bears interest at 3% per annum; with no interest and no principal payments due if the Agency continuously uses the property to provide housing for low-income youth; matures January 2038; collateralized by a deed of trust on the property with a carrying value of \$383,445	<u>\$ 56,600</u>	<u>\$ 59,000</u>
	<u>\$ 1,699,600</u>	<u>\$ 1,761,101</u>

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following program purposes at June 30,:

	2014	2013
Program activities	\$ 522,000	\$ 654,719
Time restricted	408,016	533,928
Other	39,571	30,767
	<u>\$ 969,587</u>	<u>\$ 1,219,414</u>

NOTE 14 - LEASE

Capital lease

The asset and liability under capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets, consisting of computers, servers, and phones, are amortized over the lesser of the lease term or their estimated productive lives. Amortization of the assets under capital lease is included in depreciation expense. The carrying value of assets under the capital lease as of June 30, 2014, was \$32,656, net of accumulated depreciation of \$24,973.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 14 - LEASE, CONTINUED

Future minimum payments required under the capital lease as of June 30 are as follows:

2015	\$ 14,193
2016	14,193
2017	<u>10,645</u>
Total minimum lease payments	39,031
Less amount representing interest	<u>(4,488)</u>
	<u>\$ 34,543</u>

NOTE 15 – CONCENTRATIONS, COMMITMENTS AND CONTINGENCIES

As discussed in Notes 11 and 12, the Agency has agreed to significant restrictions on the use of land and buildings in accordance with financing agreements.

A substantial portion of the public support of the Agency is derived from grants and contracts administered by various federal, state and local government agencies. Support from these grants and contracts is subject to audit, which could result in reimbursement to the grantor agencies. Revenue from the government totaled 54 percent of total public support and revenue for the year ended June 30, 2014. Receivables from government grants totaled 26 percent of total grants and promises receivable at June 30, 2014.

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for the agency. The amounts, if any, of expenditures which may be disallowed by the grantor are recorded at the time that such amounts can be reasonably determined, normally on notification by the government agency. There were no such adjustments in fiscal 2014.

NOTE 16 - SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through November 13, 2014, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.