



Financial Statements

For the Year Ended June 30, 2012

Table of Contents

	<i>Page</i>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 18

Independent Auditors' Report***Board of Directors
Cocoon House
Everett, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying statement of financial position of Cocoon House (the Agency) as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's 2011 financial statements and in our report dated March 2, 2012; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Supplementary information on program statistics has been included in Note 1 to the financial statements. The supplementary information was not subject to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Certified Public Accountants
February 12, 2013

COCOON HOUSE

Statement of Financial Position

June 30, 2012

(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 97,430	\$ 234,609
Grants receivable	228,667	321,941
United Way pledge receivable	188,605	167,440
Current portion of promises to give	229,925	53,450
Other receivables	1,013	2,275
Prepaid expenses and other	37,249	97,707
Total Current Assets	782,889	877,422
Promises to give, less current portion	45,000	
Promises to give restricted for long-term assets	90,000	
Restricted reserves		111,255
Reserves	466,005	
Investments	744,584	1,332,560
Property and equipment, net	3,193,128	2,979,318
Total Assets	\$ 5,321,606	\$ 5,300,555
Current Liabilities:		
Accounts payable	\$ 47,708	\$ 106,117
Accrued liabilities	100,724	117,248
Current portion of long-term debt	14,916	14,916
Current portion of capital lease obligation	9,734	
Total Current Liabilities	173,082	238,281
Long-term debt, less current portion	587,224	602,140
Capital lease obligation, less current portion	45,172	
Refundable advances	1,761,415	1,755,354
Total Liabilities	2,566,893	2,595,775
Net Assets:		
Unrestricted net assets	2,041,955	2,280,839
Temporarily restricted net assets	659,263	370,446
Permanently restricted net assets	53,495	53,495
Total Net Assets	2,754,713	2,704,780
Total Liabilities and Net Assets	\$ 5,321,606	\$ 5,300,555

See accompanying notes.

COCOON HOUSE

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Operating Activities					
Public Support and Revenue:					
Contracts and grants	\$ 1,500,109	\$ -	\$ -	\$ 1,500,109	\$ 1,756,205
Contributions	659,552	562,990		1,222,542	853,970
In-kind contributions	136,565			136,565	60,655
Investment income	14,000			14,000	21,367
Other revenue	2,250			2,250	8,602
Net assets released from restriction	364,173	(364,173)			
Total Public Support and Revenue	2,676,649	198,817		2,875,466	2,700,799
Operating Expenses:					
Program services-					
Shelter	587,133			587,133	613,986
Complex	717,911			717,911	707,012
Prevention and other	817,110			817,110	908,983
Total program services	2,122,154			2,122,154	2,229,981
Management and general	432,528			432,528	370,344
Fundraising	306,591			306,591	270,203
Total Operating Expenses	2,861,273			2,861,273	2,870,528
Change in Net Assets from Operating Activities before Depreciation	(184,624)	198,817		14,193	(169,729)
Depreciation	135,244			135,244	135,126
Change in Net Assets from Operating Activities	(319,868)	198,817		(121,051)	(304,855)
Nonoperating Activities					
Impairment on property and equipment	(11,224)			(11,224)	(51,975)
Capital contributions	35,000	90,000		125,000	5,000
Release of refundable advances	57,208			57,208	70,994
Change in Net Assets from Nonoperating Activities	80,984	90,000		170,984	24,019
Change in Net Assets	(238,884)	288,817		49,933	(280,836)
Net Assets:					
Beginning of year	2,280,839	370,446	53,495	2,704,780	2,985,616
End of Year	\$ 2,041,955	\$ 659,263	\$ 53,495	\$ 2,754,713	\$ 2,704,780

See accompanying notes.

COCOON HOUSE

**Statement of Functional Expenses
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)**

	<u>Shelter</u>	<u>Complex</u>	<u>Prevention and Other</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2012 Total</u>	<u>2011 Total</u>
Salaries and wages	\$ 345,997	\$ 411,081	\$ 455,780	\$ 1,212,858	\$ 250,908	\$ 132,538	\$ 1,596,304	\$ 1,651,436
Payroll taxes and benefits	91,848	130,139	96,001	317,988	45,806	33,245	397,039	291,182
Total payroll expenses	437,845	541,220	551,781	1,530,846	296,714	165,783	1,993,343	1,942,618
Supplies	10,572	11,530	12,787	34,889	8,912	19,979	63,780	105,344
Communications	6,491	4,580	12,383	23,454	6,140	2,928	32,522	41,666
Professional fees	38,801	49,198	133,760	221,759	12,963	25,228	259,950	342,287
Travel	4,920	5,967	17,866	28,753	443	363	29,559	24,456
Insurance	11,340	14,498	7,417	33,255	1,616	1,804	36,675	33,006
Occupancy	26,090	31,735	41,128	98,953	5,265	9,974	114,192	122,139
Assistance to individuals	10,321	12,248	18,695	41,264			41,264	38,834
Food and beverage	27,986	20,058	5,998	54,042	1,758	33,092	88,892	90,176
In-kind supplies and services	7,434	14,563	6,978	28,975	87,500	20,090	136,565	60,655
Staff training	1,049	1,191	2,054	4,294	4,891	870	10,055	7,169
Miscellaneous	4,284	11,123	6,263	21,670	6,326	26,480	54,476	62,178
Total Expenses	587,133	717,911	817,110	2,122,154	432,528	306,591	2,861,273	2,870,528
Depreciation	66,425	61,473	1,594	129,492	4,197	1,555	135,244	135,126
Total Operating Expenses	\$ 653,558	\$ 779,384	\$ 818,704	\$ 2,251,646	\$ 436,725	\$ 308,146	\$ 2,996,517	\$ 3,005,654

See accompanying notes.

COCOON HOUSE

Statement of Cash Flows
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 49,933	\$ (280,836)
Adjustments to reconcile change in net assets to cash used in operating activities-		
Depreciation	135,244	135,126
Loss on property and equipment impairment	11,224	51,975
Capital contributions	(125,000)	(5,000)
Release of refundable advances for long-term assets	(57,208)	(70,994)
Loss on uncollectible promises to give	5,718	10,000
Change in assets and liabilities:		
Grants receivable	93,274	24,339
United Way pledge receivable	(21,165)	
Promises to give	(227,193)	(30,118)
Other receivables	1,262	24,039
Prepaid expenses and other	60,458	(40,651)
Accounts payable	(58,409)	3,994
Accrued liabilities	(16,524)	(52,394)
Net Cash Used in Operating Activities	(148,386)	(230,520)
Cash Flows from Investing Activities:		
Proceeds from sale of restricted reserves	16,908	59,986
Proceeds from sale of investments and reserves	249,600	520,681
Purchases of investments and reserves	(33,282)	(600,239)
Purchases of property and equipment	(302,649)	(37,777)
Net Cash Used in Investing Activities	(69,423)	(57,349)
Cash Flows from Financing Activities:		
Cash received for refundable advances, long-term	63,269	39,323
Principal payments on long-term debt and capital lease obligation	(17,639)	(14,916)
Cash received from capital contributions	35,000	5,000
Net Cash Provided by Financing Activities	80,630	29,407
Net Change in Cash	(137,179)	(258,462)
Cash, beginning of year	234,609	493,071
Cash, End of Year	\$ 97,430	\$ 234,609
Supplementary Cash Flow Information:		
Equipment acquired through capital lease	\$ 57,629	\$ -

See accompanying notes.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 1 - Organization and Significant Accounting Policies

The mission of Cocoon House (the Agency) is to foster personal growth and healthy relationships to strengthen and empower at-risk and homeless youth and their families. To carry out this mission Cocoon House has developed a continuum of services to serve homeless, at-risk and highly disconnected youth in Snohomish County, providing housing, prevention and street outreach services.

Housing Services

Shelter Services: In 1991, the Agency opened Cocoon House Central, then the only self-referral emergency shelter for youth in Snohomish County of Washington State. To meet the growing need, the Agency opened the doors to its second shelter, the Arlington-based Cocoon House North, in December 2006. Both shelters are open seven days a week and provide shelter, food, intensive case management, mental health counseling, chemical dependency education/counseling, life skills training, and access to medical care and supportive services for youth ages 13-17.

In April 2010, the Agency opened the newly constructed Cocoon House East, a 90-day stay transitional shelter for youth ages 18-20 in response to a major service gap in the region for this age group. An array of age-appropriate support services similar to those found at the other shelters is available to residents at Cocoon House East. These services focus on securing long-term housing (often transitional and subsidized), gaining employment, education or training, and developing life skills necessary to be able to live independently.

During the year ended June 30, 2012, shelter services provided a total of 4,184 bed nights for 237 youth, 77 of whom had repeat shelter stays; for the year, shelter services had a total of 358 intakes and 359 exits of which 86.7% were into a safe housing situation.

Transitional Housing (Complex): The Agency also operates Cocoon Complex (the Complex) licensed as a 22-bed long-term transitional housing facility designed to host all critical services to teens on-site. Available services include intensive case management, drug/alcohol assessment/counseling/treatment, mental health care, education support and life skills training as well as housing, food, and basic needs for youth ages 13-17 who have no other housing options. By regulation, youth can live at the Complex for up to 21 months or until their 18th birthday. The Complex provides a permanent way off the street for youth who need a place to live and grow. It is considered a very unique program in Washington State. During the year ended June 30, 2012, 43 youth called the Complex home for a combined total of 4,385 bed nights; 22 of the youth who exited the Complex moved into a safe housing situation and 19 were in school, had a GED, or achieved their high school diploma.

Prevention Services for Parents and Teens

Project SAFE: The Agency launched Project SAFE in 2001 following a three-year planning and development effort. The program design is focused on helping parents develop skills and attitudes that will help the family weather the storms of adolescence. The project provides family services to prevent youth from disconnecting with family. Services include: (a) phone line consultation to provide easily accessible expert guidance to parents, including information and referrals, support and practical hands-on advice; (b) psycho-educational workshops designed to give parents the information and skills they need to more effectively parent their teen; (c) weekly drop in support group facilitated by Master's Level Therapist for ongoing support with the daily struggles of raising teens and (d) resource information and publications designed to provide hands-on information to parents. During the year ended June 30, 2012, 425 parents benefited from these services.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 1 - Continued

WayOUT: At the request of Snohomish County in 2003, the Agency began administering this established program developed specifically to serve youthful offenders referred by the juvenile courts. Today the program receives referrals from a wide variety of organizations. WayOUT is an interactive workshop for youth and their parents or guardians. Together, through a variety of experiential exercises, they work on communication, decision-making, and understanding personal differences. Third-party program reviewers concluded that every \$1 spent on the WayOUT program results in tax payers saving approximately \$7.89 in avoided crime costs such as legal proceedings, juvenile detention, and incarceration. During the year ended June 30, 2012, more than 163 parents/guardians and 146 youth participated in WayOUT seminars for a total of 309 participants.

Street Outreach

Cocoon Advocate Program: The Cocoon Advocate Program is the only mobile outreach program for youth ages 13-20 in Snohomish County. Four advocates and two outreach workers work in teams and conduct outreach where youth are: in parks, campgrounds, in cheap motels and vacant buildings, and on the streets during non-traditional/flexible hours. The advocates work with youth to meet their basic needs, distributing food, emergency supplies, clothing, hygiene and first aid kits, and referral information. When possible, they develop a trusting relationship with youth and provide increasingly intensive case management in an effort to assist the youth to make positive and safe choices that ultimately result in their leaving the streets. During the year ended June 30, 2012, the advocates, outreach workers and teen center staff had over 11,000 direct contacts with youth; 466 teens accessed services at U-Turn, the teen resource drop in center, and 255 teens benefitted from case management.

All of the program statistics noted above were provided by program management and are unaudited.

Beginning in fiscal year 2013, Cocoon House has re-purposed Cocoon House East and Cocoon House North. The new services to be offered in these facilities, respectively, are an 8-bed emergency teen shelter for 13-17 year olds and a 5-bed long term maternity group home for 13-17 year old pregnant or parenting teen moms.

Basis of Presentation - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Agency and changes therein are classified and reported as follows:

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 will be met either by actions of the Agency or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they will be maintained permanently by the Agency. Generally, the donors of these assets permit the Agency to use all or part of the income earned on any related investments for general or specific purposes.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 1 - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. It is the Agency policy to recognize restricted contributions and investment income in the unrestricted net asset class if the restrictions have been met in the same year that they were received.

The Agency reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets must be used to acquire long-lived assets are reported as restricted support. Absent of donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash - Cash consists primarily of general checking, savings accounts and short term investments with initial maturities less than three months except those that are included in investments and reserve portfolios. The Agency invests its excess cash with various financial institutions. At times such cash balances are in excess of federally insured limits.

Grants Receivable - Grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings 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. Based on prior experience, management has determined that expected losses on balances outstanding were immaterial at June 30, 2012 and 2011. Accordingly, no allowance for doubtful accounts has been recorded.

Restricted Reserves - The Agency is required to set aside cash amounts in accordance with certain grant and loan agreements. These restricted deposits are to be held in separate money market accounts or certificates of deposit and are generally not available for operating purposes. All restrictions are fully released as of June 30, 2012. At June 30, 2012 and 2011, the restricted reserves balance was \$0 and \$111,255, respectively.

Reserves - The Agency internally sets aside cash amounts for operating and maintenance purposes for all its housing facility and shelters. These reserves are held in certificates of deposit. As of June 30, 2012, the reserves balance was \$466,005.

Investments - Investments consist primarily of certificates of deposit and money market funds which are carried at cost plus accrued interest. Investment return is included in the statement of activities and changes in net assets.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 1 - Continued

Property and Equipment - Land, buildings, building improvements, vehicles, furniture and equipment are stated at cost if purchased or, in the case of donated assets, at estimated fair value at the date of contribution. The Agency capitalizes all computer equipment and other depreciable assets with a purchase price and/or donated fair value greater than \$5,000. Depreciation is provided on the straight-line method over the following estimated lives:

Building and building improvements	27.5 - 39 years
Furniture and equipment	3 - 7 years
Vehicles	5 years

Nonoperating Activities - The Agency considers contributions and grants restricted for the acquisition of long-term assets and repayment of long-term debt and the related releases to be nonoperating activities. The Agency also considers gains and losses on disposal of property and equipment and impairment of property and equipment to be nonoperating activities.

Contributions - Contributions, which include unconditional promises to give (pledges), are recognized as support in the period received.

Advertising - Advertising costs are expensed as they are incurred. Total advertising expenses for the years ended June 30, 2012 and 2011 were \$1,029 and \$5,690, respectively.

In-Kind Contributions - Donated materials and equipment are recorded as both in-kind contributions and either expenses or capital assets at their estimated fair value to the extent they can be objectively measured. Contributions of services are recognized if the services received create or enhance a nonfinancial asset or the services require specialized skills that are provided by individuals possessing those skills.

In-kind contributions consisted of donated goods of \$44,265 and \$53,046 and donated services of \$92,300 and \$7,609 for the years ended June 30, 2012 and 2011, respectively. Donated services represented donated commercial television advertising for the year ended June 30, 2012 and donated catering, photography, graphic design, and several small remodeling jobs for the year ended June 30, 2011.

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 1 - Continued

Federal Income Taxes - The Internal Revenue Service has determined the Agency to be exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and is not considered a private foundation. Accordingly, no provision for federal income taxes has been made in the financial statements. The Agency files income tax returns with the U.S. government. The Agency is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Comparative Amounts for 2011 - 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, 2011, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. Such reclassifications have no effect on the previously reported change in net assets or net assets.

Subsequent Events - The Agency has evaluated subsequent events through February 12, 2013, the date on which the financial statements were available to be issued.

Note 2 - 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. No discount was recorded as of June 30, 2012 as the discount was considered immaterial. 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.

Unconditional promises to give at June 30 were as follows:

	<u>2012</u>	<u>2011</u>
Due to be collected-		
In less than one year	\$ 289,925	\$ 53,450
One to five years	75,000	
	<u>\$ 364,925</u>	<u>\$ 53,450</u>

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 2 - Continued

For the year ended June 30, 2012, 77% of the Agency's outstanding promises to give were from four donors. For the year ended June 30, 2011, 83% of the Agency's outstanding promises to give was from one donor.

The United Way pledge receivable is due in less than one year and management believes it is fully collectible.

Note 3 - Investments and Reserves

Investments and reserves consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 959,057	\$ 1,370,200
Money market fund	<u>251,532</u>	<u>56,701</u>
Total Investments and Reserves	<u>\$ 1,210,589</u>	<u>\$ 1,426,901</u>

Investment and reserve income comprised of dividends and interest amounted to \$14,000 and \$21,367 during 2012 and 2011, respectively and was included in the statement of activities and changes in net assets. Of the total investments at June 30, 2012 \$466,055 are included in reserves and \$94,341 at June 30, 2011 was included in restricted reserves on the statement of financial position.

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Nondepreciable-		
Land	\$ 516,279	\$ 408,404
Construction in progress		2,500
Depreciable-		
Buildings and building improvements	3,403,804	3,223,242
Furniture and equipment	228,006	164,890
Vehicles	<u>65,148</u>	<u>65,148</u>
	4,213,237	3,864,184
Less accumulated depreciation	<u>(1,020,109)</u>	<u>(884,866)</u>
Total Property and Equipment, Net	<u>\$ 3,193,128</u>	<u>\$ 2,979,318</u>

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 5 - Long-Term Debt

Long-term debt consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Noninterest bearing note payable to State of Washington, Department of Community Development with annual principal payment of \$14,916, collateralized by real property. Matures January 2049. This note 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.	\$ 602,140	\$ 617,056
Less current portion	<u>(14,916)</u>	<u>(14,916)</u>
Noncurrent portion	<u>\$ 587,224</u>	<u>\$ 602,140</u>

Scheduled principal payments for long-term debt are as follows:

For the Year Ending June 30,

2013	\$ 14,916
2014	14,916
2015	14,916
2016	14,916
2017	14,916
Thereafter	<u>527,560</u>
	<u>\$ 602,140</u>

Note 6 - Refundable Advances

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. 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 and changes in net assets. The original loan balance plus a possible pro-rata share of net proceeds/appreciation or accrued interest, if any, is due generally 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 upon adherence to the terms.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 6 - Continued

Refundable advances consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
<u>Complex:</u>		
Three noninterest bearing forgivable Federal CDBG notes payable (original balances of: \$170,073, \$54,927, and \$33,334) to Snohomish County, secured by real property. Loans to be forgiven and no payments due if the Agency continuously uses the property for homeless youth transitional housing until June	\$ 148,542	\$ 155,000
Noninterest bearing forgivable note payable (original balance of \$250,000) to Snohomish County Housing Trust Fund, secured by real property. Subordinated to the note payable to the State of Washington (see Note 5). Loan to be forgiven and no payments due if the Agency continuously uses the property for low-income youth transitional housing until 2044.	160,000	165,000
<u>Central Shelter:</u>		
Four noninterest bearing forgivable Federal CDBG notes payable (original balances of: \$499, \$28,945, \$32,168 and \$98,754) to Snohomish County, secured by real property. Loans to be forgiven and no payments due if the Agency continuously uses the property to provide short term shelter and supportive services for homeless Snohomish County youth until June 2020.	64,146	72,165
<u>North Shelter:</u>		
Noninterest bearing forgivable note payable (original balance of \$261,306) to State of Washington, secured by real property. Loan to be forgiven and no payments due if the Agency continuously uses the property for emergency shelter for low-income youths between the ages of 13 and 17 that at the time of initial occupancy have gross annual incomes at or below 30% of median income for forty years until December 2045.	215,578	222,110
Noninterest bearing forgivable note payable (original balance of \$284,315) to Snohomish County, secured by real property. Loan to be forgiven and no payments due if the Agency continuously uses the property for very low-income youth housing in Snohomish County until December 2045.	234,560	241,668

COCOON HOUSE

**Notes to Financial Statements
For the Year Ended June 30, 2012**

Note 6 - Continued

	<u>2012</u>	<u>2011</u>
<u>East Shelter:</u>		
Noninterest bearing forgivable note payable (original balance of \$842,439) to State of Washington, Department of Community, Trade and Economic Development, secured by real property. Loan to be forgiven and no payments due if the Agency continuously uses the property for emergency low-income youth shelter until December 2049.	785,195	806,417
Noninterest bearing forgivable note payable (original balance of \$95,640) to Snohomish County, secured by real property. Loan to be forgiven and no payments due if the Agency continuously uses the property for emergency low-income youth shelter until September 2049.	90,547	92,994
<u>U-Turn Resource Drop-in Center:</u>		
Forgivable Federal CDBG note payable (original balance of \$63,269) to City of Everett, secured by real property. Loan to be forgiven and no principal and interest (3% simple interest) payments due if the Agency continuously uses the property for low and moderate-income youth until May 2037.	<u>62,847</u>	
	<u>\$ 1,761,415</u>	<u>\$ 1,755,354</u>

Note 7 - Fundraising Event

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

	<u>2012</u>	<u>2011</u>
Gross revenue	\$ 167,483	\$ 165,549
Direct expenses	<u>(91,087)</u>	<u>(55,058)</u>
	<u>\$ 76,396</u>	<u>\$ 110,491</u>

Gross revenue is included in contributions revenue and in-kind contributions in the statement of activities and changes in net assets. Direct expenses are included in fundraising in the statements of activities and changes in net assets and the statement of functional expenses.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2012</u>	<u>2011</u>
Future operations	\$ 188,605	\$ 167,440
Acquisition of capital assets	90,000	
Complex operation reserve		94,341
Program activities	361,453	86,915
Sara's fund	13,397	8,284
SEIN fund	3,185	
Special event - SILK sponsorships	2,623	11,500
Holiday gifts		1,966
	<u><u>\$ 659,263</u></u>	<u><u>\$ 370,446</u></u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time are as follows:

	<u>2012</u>	<u>2011</u>
Purpose restrictions	\$ 196,733	\$ 131,768
Acquisition of fixed assets		11,020
Time restriction	167,440	167,440
	<u><u>\$ 364,173</u></u>	<u><u>\$ 310,228</u></u>

Note 9 - Permanently Restricted Net Assets/Endowment

The Agency's permanently restricted net assets are entirely comprised of one donor restricted endowment fund named the Sarri Gilman Fund. The endowment assets are included in investments on the statement of financial position at June 30, 2012 and 2011.

The Agency's Sarri Gilman Fund totaled \$53,495 for both years ended June 30, 2012 and 2011. The income from the fund can be used for general unrestricted purposes. Through June 30, 2012, the Agency's policy was to spend and appropriate investment income earned on the endowment in the year it is received. The Agency is in the process of adopting an endowment spending policy. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - 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.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 9 - Continued

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 prescribed by PMIFA. In accordance with PMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Agency and the donor restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Agency; and
- The investment policies of the Agency.

As of June 30, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ -	\$ 53,495	\$ 53,495
Endowment Net Assets at June 30, 2012	\$ -	\$ -	\$ 53,495	\$ 53,495
Endowment Net Assets at June 30, 2011	\$ -	\$ -	\$ 53,495	\$ 53,495

Current year earnings and related appropriation for expenditure were not material.

Note 10 - Concentrations

Grants - A substantial portion of contracts and grants revenue is derived from grants and contracts administered by various federal, state and local government agencies. Revenue from these grants and contracts is subject to audits, which could result in adjustments to revenue. Any adjustments would be recorded at the time that such amounts could first be reasonably determined, normally upon notification by the government agency. Revenue from the government totaled 52% and 64% of total public support and revenue at June 30, 2012 and 2011, respectively. Receivables from the government at June 30, 2012 and 2011 totaled 29% and 59%, of total grants receivable, respectively.

Note 11 - Commitments and Contingencies

Self-Insured Unemployment - The Agency is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the Reimbursement Financing Method of meeting obligations under State unemployment insurance statutes. As of June 30, 2012 and 2011, the Agency had deposits with the Trust of \$8,399 and \$45,525, respectively, which are included in prepaid expenses and other on the statement of financial position.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 11 - Continued

Operating Lease - The Agency has a noncancelable operating lease for office equipment expiring in August 2015 with monthly payments of \$353.

Future minimum rental payments under the noncancelable lease were as follows:

For the Year Ending June 30,

2013	\$	4,236
2014		4,236
2015		4,236
2016		706
		<hr/>
	\$	13,414

Rental expense from noncancelable operating leases totaled \$4,236 for both years ended June 30, 2012 and 2011.

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 capital leases as of June 30, 2012, was \$57,629, net of accumulated depreciation of \$1,921.

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

For the Year Ending June 30,

2013	\$	14,193
2014		14,193
2015		14,193
2016		14,193
2017		10,645
		<hr/>
Total minimum lease payments		67,417
Less amount representing interest		(12,511)
		<hr/>
	\$	54,906

Note 12 - Related Party Transactions

As of June 30, 2012, 46% of investments are held by the Agency at a bank which two of the Board of Directors are employed. As of June 30, 2011, 37% of investments are held by the Agency at a bank which one of the Board of Directors is employed.

COCOON HOUSE

Notes to Financial Statements For the Year Ended June 30, 2012

Note 13 - Impairment of Property and Equipment

The Agency recorded an impairment charge during the years ended June 30, 2012 and 2011 of \$11,224 and \$51,975, respectively relating to certain website and database construction in progress and appraisal for a property. The impairment charge represents the actual costs incurred for the assets. The write down is included in nonoperating activities as a decrease in unrestricted net assets in the statement of activities and changes in net assets.

Note 14 - Subsequent Events

Subsequent to June 30, 2012, the Agency received a notice of claim. It is not possible to evaluate the potential liability, if any, at this time. However, management believes that any uninsured losses would not have a material effect on the financial position of the Agency.

In October 2012, the Agency's Board of Directors approved the establishment of a board-designated endowment fund. The purpose of the fund is to segregate \$300,000 for investment and growth.