



COCOONHOUSE
Because Every Child Needs A Home

Financial Statements
for the Year Ended June 30, 2015
(With Comparative Totals for 2014)
and Independent Auditors' Reports

COCOON HOUSE
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WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cocoon House
Everett, Washington

Report on the Financial Statements

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, 2015, 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 the 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.

Auditors' 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 auditors consider 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, 2015, and the changes in its net assets and 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015, on our consideration of Cocoon House'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* in considering Cocoon House's internal control over financial reporting and compliance.

Watson & McDowell, PLLC

COCOON HOUSE
Statement of Financial Position
June 30, 2015
(With Comparative Totals for 2014)

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 499,821	\$ 280,662
Government grants receivable	175,721	259,887
Current portion of United Way contribution receivable	185,000	185,000
Current portion of other contributions receivable	101,087	155,803
Prepaid expenses and other	69,133	28,525
TOTAL CURRENT ASSETS	1,030,762	909,877
United Way contribution receivable, less current portion		179,612
Other contributions receivable, less current portion	114,458	234,280
Investments	702,935	719,826
Assets held in trust - endowment	471,060	468,814
Property and equipment, net	2,952,781	3,049,617
TOTAL ASSETS	\$ 5,271,996	\$ 5,562,026
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 40,790	\$ 26,973
Accrued liabilities	163,395	169,696
Current portion of long-term debt	14,916	14,916
Current portion of capital lease obligation	12,673	11,606
TOTAL CURRENT LIABILITIES	231,774	223,191
Long-term debt, less current portion	542,476	557,392
Capital lease obligation, less current portion	10,264	22,937
Forgivable loans	1,638,100	1,699,600
TOTAL LIABILITIES	2,422,614	2,503,120
NET ASSETS		
Unrestricted:		
Designated by board for long-term investment - endowment	406,975	405,026
Other unrestricted	1,572,984	1,630,798
Total unrestricted	1,979,959	2,035,824
Temporarily restricted net assets	815,928	969,587
Permanently restricted net assets	53,495	53,495
TOTAL NET ASSETS	2,849,382	3,058,906
TOTAL LIABILITIES AND NET ASSETS	\$ 5,271,996	\$ 5,562,026

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Statement of Activities
For the Year Ended June 30, 2015
(With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
OPERATING ACTIVITIES					
Public Support and Revenue					
Contracts and grants	\$ 1,776,556			\$ 1,776,556	\$ 1,763,585
Contributions	960,658	\$ 335,455		1,296,113	967,774
In-kind contributions	64,833			64,833	70,360
Investment income	27,225	297		27,522	156,492
Other revenue	1,029			1,029	1,776
Net assets released from restriction	<u>489,411</u>	<u>(489,411)</u>		<u> </u>	<u> </u>
Total Public Support and Revenue	<u>3,319,712</u>	<u>(153,659)</u>		<u>3,166,053</u>	<u>2,959,987</u>
Operating expenses					
Program Services					
Housing	1,767,437			1,767,437	1,521,907
Outreach	473,029			473,029	433,587
Prevention	<u>296,555</u>			<u>296,555</u>	<u>342,117</u>
Program Services	2,537,021			2,537,021	2,297,611
Supporting services					
Management and general	400,877			400,877	362,060
Fundraising	<u>370,978</u>			<u>370,978</u>	<u>354,271</u>
Total operating expenses	<u>3,308,876</u>			<u>3,308,876</u>	<u>3,013,942</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE DEPRECIATION					
	10,836	(153,659)		(142,823)	(53,955)
Depreciation	<u>136,899</u>			<u>136,899</u>	<u>142,960</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES					
	<u>(126,063)</u>	<u>(153,659)</u>		<u>(279,722)</u>	<u>(196,915)</u>
NONOPERATING ACTIVITIES					
Capital contributions	5,000			5,000	16,073
Amortization of forgivable debt and interest	<u>65,198</u>			<u>65,198</u>	<u>65,506</u>
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES					
	<u>70,198</u>			<u>70,198</u>	<u>81,579</u>
CHANGE IN NET ASSETS					
	(55,865)	(153,659)		(209,524)	(115,336)
NET ASSETS, BEGINNING 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>
NET ASSETS, END OF YEAR	<u>\$ 1,979,959</u>	<u>\$ 815,928</u>	<u>\$ 53,495</u>	<u>\$ 2,849,382</u>	<u>\$ 3,058,906</u>

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Statement of Functional Expenses
For the Year Ended June 30, 2015
(With Comparative Totals for 2014)

	Housing	Outreach	Prevention	Total Program Services	Management and General	Fundraising	Total 2015	Total 2014
Salaries and wages	\$ 1,164,316	\$ 305,193	\$ 207,671	\$ 1,677,180	\$ 306,691	\$ 165,510	\$ 2,149,381	\$ 1,926,310
Payroll taxes and benefits	267,037	65,335	40,009	372,381	54,464	22,645	449,490	415,352
	<u>1,431,353</u>	<u>370,528</u>	<u>247,680</u>	<u>2,049,561</u>	<u>361,155</u>	<u>188,155</u>	<u>2,598,871</u>	<u>2,341,662</u>
Supplies	34,869	9,296	2,074	46,239	9,395	28,630	84,264	97,304
Communications	13,803	7,059	755	21,617	1,152	5,563	28,332	35,719
Professional fees	25,997	20,617	21,985	68,599	12,242	78,106	158,947	128,789
Travel	12,798	10,911	1,772	25,481	1,766	1,572	28,819	18,058
Insurance	30,867	6,396	4,013	41,276	3,975	3,185	48,436	43,378
Occupancy	57,972	8,963	6,964	73,899	5,177	4,013	83,089	91,671
Assistance to individuals	27,007	11,224	1,224	39,455			39,455	36,753
Food and beverage	46,041	6,896	1,860	54,797	148	43,455	98,400	97,991
In-kind supplies and services	49,469	10,569	4,795	64,833			64,833	70,360
Staff training	14,288	2,520	1,192	18,000	1,930	1,631	21,561	13,544
Dues/Fees/Other	22,973	8,050	2,241	33,264	3,937	16,668	53,869	38,713
	<u>1,767,437</u>	<u>473,029</u>	<u>296,555</u>	<u>2,537,021</u>	<u>400,877</u>	<u>370,978</u>	<u>3,308,876</u>	<u>3,013,942</u>
Depreciation	120,252	13,044	922	134,218	1,989	692	136,899	142,960
Total expenses	<u>\$ 1,887,689</u>	<u>\$ 486,073</u>	<u>\$ 297,477</u>	<u>\$ 2,671,239</u>	<u>\$ 402,866</u>	<u>\$ 371,670</u>	<u>\$ 3,445,775</u>	<u>\$ 3,156,902</u>

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Statement of Cash Flows
For the Year Ended June 30, 2015
(With Comparative Totals for 2014)

	2015	2014
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	\$ (209,524)	\$ (115,336)
Depreciation	136,899	142,960
Loss on disposal of property and equipment	6,160	
Capital contributions	(5,000)	(36,220)
Net realized and unrealized gains on investments	(3,802)	(134,706)
Forgiven debt	(61,500)	(61,500)
(Increase) decrease in operating assets:		
Government grants receivable	84,166	(19,142)
United Way pledge receivable	179,612	169,316
Contributions receivable	174,538	146,712
Prepaid expenses and other	(40,608)	12,893
Increase (decrease) in operating liabilities:		
Accounts payable	13,817	(46,867)
Accrued liabilities	(6,301)	36,789
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	268,457	94,899
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments and reserves	40,896	93,742
Purchases of investments and reinvested dividends	(22,449)	(114,568)
Purchases of property and equipment	(46,223)	(30,400)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(27,776)	(51,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt and capital lease obligation	(26,522)	(25,545)
Proceeds from capital contributions	5,000	36,220
NET CASH PROVIDED BY FINANCING ACTIVITIES	(21,522)	10,675
NET CHANGE IN CASH AND CASH EQUIVALENTS	219,159	54,348
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	280,662	226,314
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 499,821	\$ 280,662
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 3,565	\$ 4,459
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Forgiven debt and interest	\$ 65,198	\$ 65,506

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

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, 2015

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 portfolios.

At times cash deposits exceed the federally insured limits of the financial institution and expose the Agency to credit risk. At June 30, 2015, 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, 2015; accordingly no allowance for doubtful accounts has been recorded.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

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, 2015

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 2015.

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, 2015, the Agency received donated sundries and retail gift cards valued at \$64,833.

In addition, the Agency 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 850 hours were contributed by volunteers during fiscal 2015.

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.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, 2014, from which the summarized information was derived.

NOTE 3 - INVESTMENTS AND ASSETS HELD IN TRUST

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

	<u>2015</u>	<u>2014</u>
<u>Investments</u>		
Mutual funds	\$ 701,211	\$ 708,635
Cash	<u>1,724</u>	<u>11,191</u>
	<u>\$ 702,935</u>	<u>\$ 719,826</u>
<u>Assets held in trust:</u>		
<u>Board-designated endowment</u>		
Greater Everett Community Trust	\$ 406,975	\$ 405,026
<u>Donor-restricted endowment</u>		
Greater Everett Community Trust	<u>64,085</u>	<u>63,788</u>
	<u>\$ 471,060</u>	<u>\$ 468,814</u>

Investment return for the year ended June 30, 2015, consisted of the following:

	<u>Non- Endowment Funds</u>	<u>Assets Held in Trust</u>	<u>Total</u>
Dividends and interest	\$ 27,123	\$ -	\$ 27,123
Net realized and unrealized gains and losses	<u>102</u>	<u>297</u>	<u>399</u>
	<u>\$ 27,225</u>	<u>\$ 297</u>	<u>\$ 27,522</u>

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

NOTE 3 - INVESTMENTS AND ASSETS HELD IN TRUST, CONTINUED

Investment income is reported net of related investment expenses in the statement of activities. Investment expenses were \$14,462 for the year ended June 30, 2015.

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.

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.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

NOTE 5 - FAIR VALUE MEASUREMENTS, CONTINUED

The following presents information for investments classified within Level 3 for the year ended June 30, 2015:

Balance, June 30, 2014	\$ 468,814
Investment income	11,059
Management fees	<u>(8,813)</u>
Balance, June 30, 2015	<u>\$ 471,060</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>\$ 11,059</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 –UNITED WAY AND OTHER CONTRIBUTIONS 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 2015, 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.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

NOTE 6 - UNITED WAY AND OTHER CONTRIBUTIONS RECEIVABLE, CONTINUED

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

	<u>2015</u>	<u>2014</u>
Due to be collected -		
In less than one year	\$ 286,087	\$ 340,803
One to five years	<u>120,000</u>	<u>431,500</u>
	406,087	772,303
Less allowance	(350)	
Less discount	<u>(5,192)</u>	<u>(17,608)</u>
	<u>\$ 400,545</u>	<u>\$ 754,695</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>2015</u>	<u>2014</u>
Land	\$ 516,279	\$ 516,279
Buildings and building improvements	3,566,669	3,526,412
Furniture and equipment	219,473	234,107
Vehicles	78,148	65,148
Construction in progress		<u>21,147</u>
	<u>4,380,569</u>	<u>4,363,093</u>
Less depreciation	<u>(1,427,788)</u>	<u>(1,313,476)</u>
	<u>\$ 2,952,781</u>	<u>\$ 3,049,617</u>

NOTE 8 - UNEMPLOYMENT SELF INSURANCE

The Agency is self-insured for unemployment claims. At June 30, 2015, the agency recorded a liability of \$5,992, which is the maximum amount the Agency would pay for claims that have been filed based on reports provided by the State of Washington.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

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, 2015, the Agency had one endowment fund.

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 historical dollar amount 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.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

NOTE 9 - ENDOWMENT FUND, CONTINUED

The following describes the net asset composition of the endowment funds at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Sarri Gilman Endowment Fund		\$ 10,590	\$ 53,495	\$ 64,085
Board-designated endowment fund	\$ 406,975			406,975
Total	<u>\$ 406,975</u>	<u>\$ 10,590</u>	<u>\$ 53,495</u>	<u>\$ 471,060</u>

The following describes the changes in the endowment funds for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 405,026	\$ 10,293	\$ 53,495	\$ 468,814
Investment income (loss)	<u>1,949</u>	<u>297</u>		<u>2,246</u>
Endowment net assets, end of year	<u>\$ 406,975</u>	<u>\$ 10,590</u>	<u>\$ 53,495</u>	<u>\$ 471,060</u>

NOTE 10 - FUNDRAISING EVENTS

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

	<u>2015</u>	<u>2014</u>
Gross revenue	\$ 349,340	\$ 303,435
Direct expenses	<u>(82,540)</u>	<u>(80,550)</u>
	<u>\$ 266,800</u>	<u>\$ 222,885</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.

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

NOTE 11 - LONG-TERM DEBT

The note payable at June 30, was:

	2015	2014
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	\$ 557,392	\$ 572,308
Less current portion	(14,916)	(14,916)
	\$ 542,476	\$ 557,392

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

2016	\$	14,916
2017		14,916
2018		14,916
2019		14,916
2020		14,916
Thereafter		482,812
		\$ 557,392

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.

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, 2015

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 amortization of forgivable debt and interest 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,:

	2015	2014
<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	\$ 129,167	\$ 135,625
 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)	 145,000	 150,000
<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	40,092	48,110

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

NOTE 12 - FORGIVABLE LOANS, CONTINUED

	2015	2014
<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	\$ 195,979	\$ 202,512
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	213,237	220,345
<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	721,852	742,913
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	83,318	85,709
<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	55,255	57,786

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

NOTE 12 - FORGIVABLE LOANS, CONTINUED

	2015	2014
<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	\$ 54,200	\$ 56,600
	\$ 1,638,100	\$ 1,699,600

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

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

	2015	2014
Program activities	\$ 544,846	\$ 522,000
Time restricted	252,003	408,016
Other	19,079	39,571
	\$ 815,928	\$ 969,587

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, 2015, was \$21,131, net of accumulated depreciation of \$36,498.

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

2016	\$ 14,193
2017	10,645
Total minimum lease payments	24,838
Less amount representing interest	(1,901)
	\$ 22,937

COCOON HOUSE
Notes to Financial Statements
For the Year Ended June 30, 2015

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. Revenue from the government totaled 54 percent of total public support and revenue for the year ended June 30, 2015. Receivables from government grants totaled 30 percent of total grants and promises receivable at June 30, 2015.

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 2015.

NOTE 16 - SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through November 9, 2015, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

SUPPLEMENTARY INFORMATION

COCOON HOUSE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Federal Grantor / Pass-Through Grantor Number	Expenditures
US Department of Health and Human Services			
Direct Programs			
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557	90YO0173-03	\$ 14,961
			<u>14,961</u>
Basic Center Grant	93.623	90CY6422-02/03	213,676
			<u>213,676</u>
Transitional Living for Homeless Youth	93.550	90CX6886/02	34,418
Transitional Living for Homeless Youth	93.550	90CX6886/03	159,676
Transitional Living for Homeless Youth	93.550	90CX7029/02	165,581
Transitional Living for Homeless Youth	93.550	90CX7029/03	35,499
			<u>395,174</u>
Total US Department of Health and Human Services			<u>623,811</u>
US Department of Housing and Urban Development			
Pass-Through Programs From:			
Snohomish County			
Community Development Block Grant/Entitlement Grants			
Mortgage Loan (Complex)	14.218	HCD-1993-19	170,073
Mortgage Loan (Complex)	14.218	HCD-1993-42	54,927
Mortgage Loan (Complex)	14.218	HCD-1993-39	33,334
			<u>258,334</u>

COCOON HOUSE
Schedule of Expenditures of Federal Awards, Continued
For the Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Federal Grantor / Pass-Through Grantor Number	Expenditures
US Department of Housing and Urban Development, Continued			
Pass-Through Programs From:			
Snohomish County, Continued			
Mortgage Loan (Central Shelter)	14.218	HCD-1996-36	\$ 32,168
Mortgage Loan (Central Shelter)	14.218	HCD-1998-44	98,754
Mortgage Loan (Central Shelter)	14.218	HCD-1996-56	28,945
Mortgage Loan (Central Shelter)	14.218	HCD-1995-53	<u>499</u>
			<u>160,366</u>
Community Development Block Grant	14.218	HCS-12-24-1203-077	<u>38,519</u>
City of Everett			
Mortgage Loan (U-Turn)	14.218	Building Acquisition	63,269
Renovation Loan (U-Turn)	14.218	Building Renovation	<u>60,000</u>
			<u>123,269</u>
Total US Department of Housing and Urban Development			<u>580,488</u>
US Department of Homeland Security			
Emergency Food and Shelter National Board Program	97.024	LRO ID 892400-025	<u>10,000</u>
Total Expenditures of Federal Awards			<u>\$ 1,214,299</u>

COCOON HOUSE
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Cocoon House (the Agency), under programs of the federal government for the year ended June 30, 2015. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Agency.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Agency provided none of the federal awards to subrecipients.

NOTE D - LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS

The funds for the loans were passed through from the U.S. Department of Housing and Urban Development's Community Development Block Grant program, CFDA 14.218. Loans are forgivable on the maturity dates as long as Cocoon House remains in compliance with certain program regulations through maturity.

<u>Purpose</u>	<u>Maturity Date</u>	<u>Outstanding Balance</u>
Complex	Jun 2035	\$ 258,334
Central Shelter	Jun 2020	160,366
U-Turn Facility Acquisition	May 2037	63,269
U-Turn Facility Renovation	Jan 2038	<u>60,000</u>
		<u>\$ 541,969</u>

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Cocoon House
Seattle, Washington

We have audited, in accordance with the 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, the financial statements of Cocoon House (the Agency), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watson & McDowell, PLLC

November 9, 2015

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Cocoon House
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited Cocoon House's (the Agency) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2015. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Watson & McDowell, PLLC

November 9, 2015

COCOON HOUSE
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2015

A. SUMMARY OF AUDITORS' RESULTS

1. *Financial Statements*

The auditors' report expresses an unmodified opinion on the financial statements of Cocoon House.

Internal control over financial reporting:

Material weaknesses identified: _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses: _____ Yes X None reported

Noncompliance material to financial statements noted: _____ Yes X No

2. *Federal Awards*

Internal control over major programs:

Material weaknesses identified: _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses: _____ Yes X None reported

3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

_____ Yes X No

4. The programs tested as major programs were:

<u>CFDA</u>	<u>Name of Federal program</u>	<u>Compliance Opinion</u>
#14.218	Community Development Block Grants	Unmodified

5. The threshold for distinguishing type A and B programs was \$300,000.

6. Cocoon House was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT - None

COCOON HOUSE
Status of Prior Year (2014) Audit Findings
For the Year Ended June 30, 2015

D. PRIOR AUDIT FINDINGS - None