COCOONHOUSE
Because Every Child Needs A Home

Financial Statements
for the Year Ended June 30, 2016
(With Comparative Totals for 2015)
and Independent Auditor's Report

COCOON HOUSE
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WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cocoon House
Everett, Washington

We have audited the accompanying financial statements of Cocoon House (a Washington nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2016, 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 2015 financial statements, and in our report dated November 9, 2015, we expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Watson & McDonell, PLLC

October 27, 2016

COCOON HOUSE

Statement of Financial Position

June 30, 2016

(With Comparative Totals for 2015)

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 101,219	$ 499,821
Accounts receivable	5,750	
Government grants receivable	249,000	175,721
Current portion of United Way contribution receivable	181,500	185,000
Current portion of other contributions receivable	317,270	101,087
Prepaid expenses and other	61,332	69,133
TOTAL CURRENT ASSETS	916,071	1,030,762
United Way contribution receivable, less current portion	58,738	
Other contributions receivable, less current portion	263,373	114,458
Promises to give, restricted for long-term assets	375,944	
Investments	702,883	702,935
Assets held in trust - endowment	439,436	471,060
Property and equipment, net	2,840,718	2,952,781
TOTAL ASSETS	$ 5,597,163	$ 5,271,996
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 35,280	$ 40,790
Accrued liabilities	225,995	163,395
Current portion of long-term debt	14,916	14,916
Current portion of capital lease obligation	10,264	12,673
TOTAL CURRENT LIABILITIES	286,455	231,774
Long-term debt, less current portion	527,560	542,476
Capital lease obligation, less current portion		10,264
Forgivable loans	1,576,599	1,638,100
TOTAL LIABILITIES	2,390,614	2,422,614
NET ASSETS		
Unrestricted:		
Designated by board for long-term investment - endowment	375,311	406,975
Other unrestricted	1,461,770	1,572,984
Total unrestricted	1,837,081	1,979,959
Temporarily restricted net assets	1,315,973	815,928
Permanently restricted net assets	53,495	53,495
TOTAL NET ASSETS	3,206,549	2,849,382
TOTAL LIABILITIES AND NET ASSETS	$ 5,597,163	$ 5,271,996

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Statement of Activities
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
OPERATING ACTIVITIES					
Public support and revenue					
Contracts and grants	$ 1,878,317			$ 1,878,317	$ 1,776,556
Contributions	1,286,044	$ 682,901		1,968,945	1,296,113
In-kind contributions	57,495			57,495	64,833
Investment income	379	40		419	27,522
Other revenue	1,141			1,141	1,029
Net assets released from restriction	664,040	(664,040)			
Total public support and revenue	3,887,416	18,901		3,906,317	3,166,053
Operating expenses					
Program services					
Housing	1,989,531			1,989,531	1,767,437
Outreach	753,409			753,409	473,029
Prevention	251,325			251,325	296,555
Program services	2,994,265			2,994,265	2,537,021
Supporting services					
Management and general	425,347			425,347	400,877
Fundraising	500,365			500,365	370,978
Development	42,551			42,551	
Total operating expenses	3,962,528			3,962,528	3,308,876
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE DEPRECIATION	(75,112)	18,901		(56,211)	(142,823)
Depreciation	133,530			133,530	136,899
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(208,642)	18,901		(189,741)	(279,722)
NONOPERATING ACTIVITIES					
Capital contributions		481,144		481,710	5,000
Amortization of forgivable debt and interest	65,198			65,198	65,198
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES	65,764	481,144		546,908	70,198
CHANGE IN NET ASSETS	(142,878)	500,045		357,167	(209,524)
NET ASSETS, BEGINNING OF YEAR	1,979,959	815,928	$ 53,495	2,849,382	3,058,906
NET ASSETS, END OF YEAR	$ 1,837,081	$ 1,315,973	$ 53,495	$ 3,206,549	$ 2,849,382

The accompanying notes should be read with these financial statements.

COCOON HOUSE
Statement of Functional Expenses
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Housing	Outreach	Prevention	Total Program Services	Management and General	Fundraising	Capital Development	Total 2016	Total 2015
Salaries and wages	$ 1,350,166	$ 495,551	$ 184,621	$ 2,030,338	$ 327,537	$ 260,607	$ 777	$ 2,619,259	$ 2,149,381
Payroll taxes and benefits	308,203	114,508	37,773	460,484	59,746	41,169	65	561,464	449,490
	1,658,369	610,059	222,394	2,490,822	387,283	301,776	842	3,180,723	2,598,871
Supplies	31,459	12,650	1,728	45,837	9,590	28,127	270	83,824	84,264
Communications	12,645	9,608	971	23,224	1,499	5,066		29,789	28,332
Professional fees	39,797	24,173	8,073	72,043	10,202	73,155	41,439	196,839	158,947
Travel	10,442	14,835	1,574	26,851	1,316	3,124		31,291	28,819
Insurance	31,113	7,470	3,777	42,360	4,239	3,204		49,803	48,436
Occupancy	65,420	16,588	6,664	88,672	6,381	7,813		102,866	83,089
Assistance to individuals	27,838	22,822		50,660				50,660	39,455
Food and beverage	49,028	6,106	556	55,690	968	60,856		117,514	98,400
In-kind supplies and services	40,616	13,002	3,877	57,495				57,495	64,833
Staff training	6,722	3,743	168	10,633	297	1,407		12,337	21,561
Dues/Fees/Other	16,082	12,353	1,543	29,978	3,572	15,837		49,387	53,869
	1,989,531	753,409	251,325	2,994,265	425,347	500,365	42,551	3,962,528	3,308,876
Depreciation	117,143	13,851	692	131,686	1,037	807		133,530	136,899
Total expenses	$ 2,106,674	$ 767,260	$ 252,017	$ 3,125,951	$ 426,384	$ 501,172	$ 42,551	$ 4,096,058	$ 3,445,775

The accompanying notes should be read with these financial statements.

COCOON HOUSE

Statement of Cash Flows

For the Year Ended June 30, 2016

(With Comparative Totals for 2015)

	2016	2015
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	$ 357,167	$ (209,524)
Depreciation	133,530	136,899
Loss on disposal of property and equipment		6,160
Capital contributions		(5,000)
Net realized and unrealized gains on investments	19,797	(3,802)
Forgiven debt	(61,501)	(61,500)
(Increase) decrease in operating assets:		
Accounts receivable	(5,750)	
Government grants receivable	(73,279)	84,166
United Way pledge receivable	(55,238)	179,612
Contributions receivable	(741,042)	174,538
Prepaid expenses and other	7,801	(40,608)
Increase (decrease) in operating liabilities:		
Accounts payable	(5,510)	13,817
Accrued liabilities	62,600	(6,301)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(361,425)	268,457
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	31,540	40,896
Purchases of investments and reinvested dividends	(19,661)	(22,449)
Purchases of property and equipment	(21,467)	(46,223)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(9,588)	(27,776)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt and capital lease obligation	(27,589)	(26,522)
Proceeds from capital contributions		5,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	(27,589)	(21,522)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(398,602)	219,159
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	499,821	280,662
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 101,219	$ 499,821
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 3,698	$ 3,565
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Forgiven debt and interest	$ 65,198	$ 65,198

The accompanying notes should be read with these financial statements.

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.

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, 2016, 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, 2016; accordingly no allowance for doubtful accounts has been recorded.

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.

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:

	Years
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 2016.

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. The Agency received donated sundries and retail gift cards valued at $57,495 and $64,833 during the years ended June 30, 2016 and 2015, respectively.

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 780 and 850 hours were contributed by volunteers during fiscal 2016 and 2015, respectively.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income tax, 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, 2015, 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,:

	2016	2015
Investments		
Mutual funds	$ 694,659	$ 701,211
Cash	8,224	1,724
	$ 702,883	$ 702,935
Assets held in trust:		
Board-designated endowment		
Greater Everett Community Trust	$ 375,311	$ 406,975
Donor-restricted endowment		
Greater Everett Community Trust	64,125	64,085
	$ 439,436	$ 471,060

NOTE 3 - INVESTMENTS AND ASSETS HELD IN TRUST, CONTINUED

Investment return for the year ended June 30, 2016, consisted of the following:

	Non-Endowment Funds	Assets Held in Trust	Total
Dividends and interest	$ 19,661	$ -	$ 19,661
Net realized and unrealized gains and losses	(19,713)	(84)	(19,797)
	$ (52)	$ (84)	$ (136)

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

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

Investment income is reported net of related investment expenses in the statement of activities. Investment expenses were $13,977 and $14,462 for the years ended June 30, 2016 and 2015, respectively.

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.

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

	2016	2015
Balance, June 30, 2015	$ 471,060	$ 468,814
Investment income	8,375	11,059
Draws	(31,540)	
Management fees	(8,459)	(8,813)
Balance, June 30, 2016	$ 439,436	$ 471,060
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	$ 8,375	$ 11,059

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 2016, 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.

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

	2016	2015
Due to be collected -		
In less than one year	$ 498,770	$ 286,087
One to five years	737,050	120,000
	1,235,820	406,087
Less allowance	(555)	(350)
Less discount	(38,440)	(5,192)
	$ 1,196,825	$ 400,545

At June 30, 2016, 99 percent of the Agency’s net promises to give were from four donors.

NOTE 7 - PROPERTY AND EQUIPMENT

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

	2016	2015
Land	$ 516,279	$ 516,279
Buildings and building improvements	3,588,136	3,566,669
Furniture and equipment	219,473	219,473
Vehicles	78,148	78,148
	4,402,036	4,380,569
Less depreciation	(1,561,318)	(1,427,788)
	$ 2,840,718	$ 2,952,781

NOTE 8 - UNEMPLOYMENT SELF INSURANCE

The Agency is self-insured for unemployment claims. At June 30, 2016, 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.

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, 2016, 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.

NOTE 9 - ENDOWMENT FUND, CONTINUED

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.

The following describes the net asset composition of the endowment funds at June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Sarri Gilman Endowment Fund		$ 10,630	$ 53,495	$ 64,125
Board-designated endowment fund	$ 375,311			375,311
Total	$ 375,311	$ 10,630	$ 53,495	$ 439,436

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

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

NOTE 9 - ENDOWMENT FUND, CONTINUED

The following describes the changes in the endowment funds for the years ended June 30, 2016 and 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ 405,026	$ 10,293	$ 53,495	$ 468,814
Investment income (loss)	1,949	297		2,246
Endowment net assets, June 30, 2015	406,975	10,590	53,495	471,060
Amounts appropriated and expended	(31,540)			(31,540)
Investment income (loss)	(124)	40		(84)
Endowment net assets, June 30, 2016	$ 375,311	$ 10,630	$ 53,495	$ 439,436

NOTE 10 - FUNDRAISING EVENTS

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

	2016	2015
Gross revenue	$ 383,976	$ 349,340
Direct expenses	(102,434)	(82,540)
	$ 281,542	$ 266,800

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

NOTE 11 - LONG-TERM DEBT

The note payable at June 30, was:

	2016	2015
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 $854,732	$ 542,476	$ 557,392
Less current portion	(14,916)	(14,916)
	$ 527,560	$ 542,476

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

2017	$ 14,916
2018	14,916
2019	14,916
2020	14,916
2021	14,916
Thereafter	467,896
	$ 542,476

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.

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,:

	2016	2015
Complex:		
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 $854,732	$ 122,708	$ 129,167
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 $854,732; subordinated to the note payable to the State of Washington (see Note 11)	140,000	145,000
Central Shelter:		
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 $299,426	32,073	40,092

NOTE 12 - FORGIVABLE LOANS, CONTINUED

	2016	2015
<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 $416,878	$ 189,447	$ 195,979
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 $416,878	206,129	213,237
<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 $871,005	700,791	721,852
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 $871,005	80,927	83,318
<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 $362,069	52,724	55,255

NOTE 12 - FORGIVABLE LOANS, CONTINUED

	2016	2015
U-Turn Resource Drop-in Center, continued		
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 $362,069	$ 51,800	$ 54,200
	$ 1,576,599	$ 1,638,100

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Program activities	$ 581,227	$ 544,846
Time restricted	240,238	252,003
Capital campaign	481,144	
Other	13,364	19,079
	$ 1,315,973	$ 815,928

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, 2016, was $9,605, net of accumulated depreciation of $48,024. The lease expires in March 2017.

Future minimum payments required under the capital lease are $10,645, of which $381 represents interest.

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 48 and 54 percent of total public support and revenue for the year ended June 30, 2016 and 2015, respectively. Receivables from government grants totaled 17 and 30 percent of total grants and promises receivable at June 30, 2016 and 2015, respectively.

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 2016.

NOTE 16 - SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through October 27, 2016, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.