

**COCOON HOUSE**  
**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)**



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(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Cocoon House  
Everett, Washington

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the accompanying financial statements of Cocoon House (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cocoon House and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cocoon House's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cocoon House's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cocoon House's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Report on Summarized Comparative Information**

We have previously audited Cocoon House's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 5, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Supplementary Information**

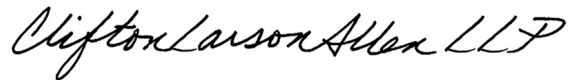
Our audit was conducted for the purpose of forming opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis 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.

Board of Directors  
Cocoon House

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 GAAS. 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 21, 2022, 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 solely 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 the effectiveness of Cocoon House’s 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.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
November 21, 2022

**COCOON HOUSE**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2021)**

	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,263,499	\$ 1,464,022
Accounts Receivable	2,413	234,357
Government Grants Receivable	817,906	811,116
Contributions Receivable, Current Portion	62,865	77,774
Prepaid Expenses and Other	189,591	117,667
Total Current Assets	2,336,274	2,704,936
Contributions Receivable, Noncurrent	38,381	90,529
Investments	888,460	1,042,936
Assets Held in Trust - Endowment	97,633	108,170
Property and Equipment, Net	15,156,214	14,892,695
Total Assets	\$ 18,516,962	\$ 18,839,266
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 97,116	\$ 106,611
Accrued Liabilities	270,809	356,115
Current Lease Liability - Financing	3,158	-
Total Current Liabilities	371,083	462,726
Long-Term Debt, Less Unamortized Issuance Costs	727,500	727,500
Forgivable Loans	9,120,580	9,120,580
Long-Term Lease Liability - Financing	14,015	-
Accrued Interest Payable - Forgivable Loans	38,879	35,181
Total Liabilities	10,272,057	10,345,987
<b>NET ASSETS</b>		
Without Donor Restrictions:		
Designated by Board for Long-Term Investment - Endowment	14,073	15,620
Designated by Board for Liquidity Reserve	888,460	1,042,936
Other	7,133,122	6,894,565
Total Without Donor Restrictions	8,035,655	7,953,121
With Donor Restrictions:		
Perpetual in Nature	53,495	53,495
Purpose Restrictions	155,755	486,663
Total With Donor Restrictions	209,250	540,158
Total Net Assets	8,244,905	8,493,279
Total Liabilities and Net Assets	\$ 18,516,962	\$ 18,839,266

See accompanying Notes to Financial Statements.

**COCOON HOUSE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2022  
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)**

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2022	2021
<b>OPERATING ACTIVITIES</b>				
Public Support and Revenue:				
Government Grants and Contracts	\$ 10,229,625	\$ -	\$ 10,229,625	\$ 6,007,897
Contributions	1,345,733	115,690	1,461,423	1,816,844
Contributed Nonfinancial Assets	99,820	-	99,820	85,624
Investment Income (Loss)	(140,640)	(8,990)	(149,630)	247,861
Rental Revenue	71,383	-	71,383	85,023
Forgiven Debt	-	-	-	888,966
Other Revenue	800	-	800	26,915
Net Assets Released from Restrictions	249,991	(249,991)	-	-
Total Public Support and Revenue	<u>11,856,712</u>	<u>(143,291)</u>	<u>11,713,421</u>	<u>9,159,130</u>
Operating Expenses:				
Program Services:				
Housing	2,930,284	-	2,930,284	3,453,877
Outreach	1,152,260	-	1,152,260	1,129,512
Prevention	231,006	-	231,006	270,189
Employment	195,810	-	195,810	-
COVID-19 Assistance	5,855,531	-	5,855,531	1,680,311
Total Program Services	<u>10,364,891</u>	<u>-</u>	<u>10,364,891</u>	<u>6,533,889</u>
Supporting Services:				
Management and General	757,117	-	757,117	692,066
Fundraising	410,924	-	410,924	357,561
Total Operating Expenses	<u>11,532,932</u>	<u>-</u>	<u>11,532,932</u>	<u>7,583,516</u>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE DEPRECIATION</b>				
	323,780	(143,291)	180,489	1,575,614
<b>DEPRECIATION</b>	<u>436,173</u>	<u>-</u>	<u>436,173</u>	<u>429,991</u>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>				
	(112,393)	(143,291)	(255,684)	1,145,623
<b>NONOPERATING ACTIVITIES</b>				
Capital Contributions	-	-	-	9,756
Net Assets Released from Restrictions	187,617	(187,617)	-	-
Gain on Sale of Property	7,310	-	7,310	-
Capital Development Expense	-	-	-	(51,298)
<b>CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES</b>				
	<u>194,927</u>	<u>(187,617)</u>	<u>7,310</u>	<u>(41,542)</u>
<b>CHANGE IN NET ASSETS</b>				
	82,534	(330,908)	(248,374)	1,104,081
Net Assets- Beginning of Year	<u>7,953,121</u>	<u>540,158</u>	<u>8,493,279</u>	<u>7,389,198</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 8,035,655</u>	<u>\$ 209,250</u>	<u>\$ 8,244,905</u>	<u>\$ 8,493,279</u>

See accompanying Notes to Financial Statements.

**COCOON HOUSE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)**

	Program Services					Total Program Services	Management and General	Fundraising	Totals	
	Housing	Outreach	Prevention	Employment	COVID-19 Assistance				2022	2021
Salaries, Wages, Taxes, and Benefits	\$ 2,144,598	\$ 909,036	\$ 199,295	\$ 180,471	\$ 142,185	\$ 3,575,585	\$ 603,543	\$ 304,308	\$ 4,483,436	4,819,175
Supplies	53,113	13,584	3,697	409	47,876	118,679	22,446	34,564	175,689	155,485
Communications	35,676	13,280	2,692	1,406	4,376	57,430	17,328	10,492	85,250	62,026
Professional Fees	38,859	61,806	7,816	60	769	109,310	59,485	28,445	197,240	107,791
Travel	10,881	10,692	942	488	512	23,515	2,204	50	25,769	18,270
Insurance	59,735	13,999	1,499	38	347	75,618	8,875	3,141	87,634	89,604
Occupancy	210,012	26,628	3,609	-	170	240,419	12,486	5,705	258,610	319,300
Assistance to Individuals	236,101	55,471	217	8,930	5,657,620	5,958,339	225	-	5,958,564	1,845,000
Food and Beverage	36,442	8,618	661	-	661	46,382	844	12,034	59,260	65,428
In-Kind Supplies and Services	74,869	26,871	7,006	470	376	109,592	-	-	109,592	65,667
Staff Training	10,340	4,654	1,876	2,518	151	19,539	4,920	716	25,175	8,571
Dues/Fees/Other	19,658	7,621	1,696	1,020	488	30,483	24,761	11,469	66,713	78,500
<b>Total</b>	<b>2,930,284</b>	<b>1,152,260</b>	<b>231,006</b>	<b>195,810</b>	<b>5,855,531</b>	<b>10,364,891</b>	<b>757,117</b>	<b>410,924</b>	<b>11,532,932</b>	<b>7,634,817</b>
Depreciation	288,297	90,199	6,268	-	-	384,764	32,589	18,820	436,173	429,991
<b>Total Expenses</b>	<b>\$ 3,218,581</b>	<b>\$ 1,242,459</b>	<b>\$ 237,274</b>	<b>\$ 195,810</b>	<b>\$ 5,855,531</b>	<b>\$ 10,749,655</b>	<b>\$ 789,706</b>	<b>\$ 429,744</b>	<b>\$ 11,969,105</b>	<b>\$ 8,064,808</b>

See accompanying Notes to Financial Statements.



**COCOON HOUSE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2022  
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Revenue Collected:		
Government Grants and Contracts	\$ 10,222,835	\$ 5,819,806
Contributions	1,693,367	1,582,487
Other Revenue	106,904	142,153
Compensation and Payments to Suppliers	(11,578,211)	(7,495,751)
Net Cash Provided by Operating Activities	444,895	48,695
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	5,512	17,807
Purchases of Investments and Reinvested Dividends	(24,850)	(34,475)
Proceeds from Sale of Property	9,722	-
Purchases of Property and Equipment	(702,104)	(5,121)
Net Cash Used by Investing Activities	(711,720)	(21,789)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Finance Leases	(755)	-
Principal Payments on Long-Term Debt	-	(135,839)
Proceeds from Capital Contributions	67,057	360,874
Net Cash Provided by Financing Activities	66,302	225,035
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(200,523)	251,941
Cash and Cash Equivalents - Beginning of Year	1,464,022	1,212,081
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,263,499	\$ 1,464,022

See accompanying Notes to Financial Statements.

**COCOON HOUSE**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2021)**

**RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Change in Net Assets	\$ (248,374)	\$ 1,104,081
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Gain from Disposal of Asset	(7,310)	-
Depreciation	436,173	429,991
Capital Contributions	(67,057)	(360,874)
Net Unrealized and Realized (Gains) Losses on Investments	184,351	(217,646)
In-Kind Donation of Inventory	9,772	(19,957)
Debt Forgiven	-	(888,966)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	231,944	(234,357)
Government Grants Receivable	(6,790)	(188,091)
Contributions Receivable	67,057	351,118
Prepaid Expenses and Other	(81,696)	3,679
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(9,495)	66,171
Accrued Liabilities	(85,306)	1,886
Lease Liability - Financing	17,928	-
Accrued Interest Payable	3,698	1,660
Net Cash Provided by Operating Activities	<u>\$ 444,895</u>	<u>\$ 48,695</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

Equipment Purchases Financed through Debt	<u>\$ 17,173</u>	<u>\$ -</u>
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See accompanying Notes to Financial Statements.

**COCOON HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2021)**

**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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 shelter programs for teens 12 to 17 years old. The East shelter in Monroe is a licensed shelter facility with eight beds in service. This facility is staffed 24/7 by Cocoon House. The second shelter is a Host Home Shelter Model and provides housing for up to eight teens who are placed in volunteer short term stays with trained volunteer host families. Cocoon House staff provide daily contact and 24/7 support as needed.

**Transitional Housing:** The Agency operates a transitional housing program in Everett, providing 20 beds to teens 15 to 17 years old.

**Young Adult Housing:** The Agency operates a scattered site rapid rehousing program that supports young adults between the ages of 18-24 in leased apartment units. The Agency also master leases up to five units of scattered site apartments to provide 18 to 24-year-olds an immediate housing option until they can find an apartment to rent. The Agency also provides a site based permanent housing program of leased studio units to 20 individuals between the ages of 18 and 24.

**Homeless Student Housing:** The Agency provides Case Management and support to 20 homeless students ages 18 to 24 who are attending Everett Community College.

Available services at housing programs include housing navigation through Coordinated Entry, intensive case management, drug and alcohol assessment, counseling and treatment, mental health counseling, education support, job readiness training, parenting support 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 drop-in center to engage and assist youth ages 12 to 24 in Snohomish County. Staff conduct 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. Other services offered through Street Outreach include Coordinated Entry, housing placement, and rapid re-housing case management support.

**COCOON HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2021)**

**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Organization (Continued)**

Street Outreach (Continued)

Youth Engagement Team: The Youth Engagement Team provides ongoing support for 12 to 18-year-olds experiencing or at imminent risk of homelessness and who are involved in a system: juvenile justice, the schools, behavioral health, or DCYF. Services can be provided during the time they are homeless and for up to six months after they are stably housed.

Prevention Services for Parents and Teens

Parent Drop In: Parents of 12 to 18-year-olds are able to call in or stop by during scheduled drop in hours to receive support and resources from the Prevention team.

Parenting Classes: Classes are offered to parents and caregivers that want to increase their knowledge of a variety of parenting topics including; teenage brain development, grief and loss and the effect on teens, communication styles, healthy boundaries, and a variety of other topics.

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.

Family Case Management: Cocoon House's Family Case Managers work with teens ages 12 to 17 years old and their families to stabilize the family relationship. This support keeps teens in the home and away from experiencing homelessness.

Youth Employment

SnoCo Futures: Cocoon House is the lead agency on a four-agency collaboration providing outreach to young people across the community and linking them to employment training, internships, and skills development. Funded through the Workforce Innovation and Opportunity Act (WIOA), the program operates in partnership with Refugee and Immigrant Services NW, Seattle Jobs Initiative, Housing Hope, and Workforce Snohomish. The program site is based at the Everett Transit Center.

COVID-19 Assistance

Cocoon House serves as the agency of record in Snohomish County to distribute Emergency Rental Assistance Program (ERAP) and Treasury Rental Assistance Program (TRAP) funds to eligible young adults under the age of 25.

Cocoon House utilized a team of trained staff to identify members of the community who qualify for rent support and eviction prevention services. Applicants are screened for eligibility and are awarded based on availability of funds and individual qualifiers. Services offered through the CARES funding may or may not result in additional service engagement with the Agency.

**COCOON HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2021)**

**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Organization (Continued)**

COVID-19 Assistance (Continued)

Cocoon House also provided other services using funds from the American Rescue Plan Act (ARPA) of 2021 and the Coronavirus Aid, Relief and Economic Security Act of 2020 (CARES) including, outreach, case management, emergency shelter, Rapid Rehousing, employment services and direct financial assistance that promote a more equitable recovery for those most impacted by the pandemic.

**Net Assets**

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as Net Assets Released from Restrictions.

**Comparative Financial Information**

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended June 30, 2021, from which the summarized information was derived.

**COCOON HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2021)**

**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue and Revenue Recognition**

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

A portion of the Agency's revenue is derived from cost-reimbursable federal, state and local contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Agency has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Agency received cost-reimbursable grants of \$3,005,780 that have not been recognized at June 30, 2022 because qualifying expenditures have not yet been incurred.

**Donated Goods and Services**

Donations of noncash assets are recorded at their fair values in the period received. Donated services that create or enhance nonfinancial 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. 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 916 and 984 hours were contributed by volunteers during fiscal 2022 and 2021, respectively.

**Property and Equipment**

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. Costs that clearly relate to land development projects are capitalized. Interest costs are capitalized while development is in progress. Replacements and major repairs are expensed. Depreciation is provided on the straight-line method over the assets' estimated useful lives as follows:

Buildings and Improvements	15 to 39 Years
Furniture and Equipment	3 to 15 Years
Vehicles	5 Years

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**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 2022.

**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.

**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, 2022, cash balances over the federally insured limits were \$1,205,280. The Agency believes it is not exposed to any significant risk of loss on these funds.

**Grants and Contributions Receivable**

Grants and contributions 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.

**Fair Value of Financial Assets and Liabilities**

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), 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 to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency has the ability to access.

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**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value of Financial Assets and Liabilities (Continued)**

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

See Note 6 for a discussion of assets measured at fair value on a recurring basis.

**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 Expenses**

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Agency. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel expenses, supplies, communications, professional fees, travel, insurance, occupancy, food and beverage, in-kind supplies, staff training, and dues/fees/other, which are allocated on the basis of estimates of time and effort. Depreciation is allocated based on a square footage basis.

**Change in Accounting Principle**

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.



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**NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in Accounting Principle (Continued)**

Cocoon House early-adopted the requirements of the guidance effective July 1, 2021, and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2021 are made under prior lease guidance in FASB ASC 840.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires that contributed nonfinancial assets are reported on a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires disclosure of disaggregated amounts of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets along with additional qualitative information about the monetization of such assets, donor restrictions and valuation techniques. The adoption of this standard did not have any significant impact on the accompanying financial statements or disclosures.

**Leases**

Cocoon House leases a copy machine for use in its headquarters. Cocoon House determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the statement of financial position. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on our statement of financial position. There were no capital leases at June 30, 2022.

ROU assets represent Cocoon House's right to use an underlying asset for the lease term and lease liabilities represent Cocoon House's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, Cocoon House uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that Cocoon House will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Cocoon House has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the balance sheet.

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**NOTE 2 LIQUIDITY AND AVAILABILITY**

As part of the Agency's liquidity management, it invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Agency has a committed line of credit of \$350,000 which it could draw upon. The Agency's financial assets available within one year of the balance sheet date for general expenditures are as follows:

	2022	2021
Cash and Cash Equivalents	\$ 1,263,499	\$ 1,464,022
Accounts Receivable	2,413	234,357
Government Grants Receivable	817,906	811,116
Total	\$ 2,083,818	\$ 2,509,495

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$888,460 as of June 30, 2022 and \$1,042,936 as of June 30, 2021. This is an established board-designated fund where the governing board has the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need.

The assets of the donor-restricted endowment are held in perpetuity. Income from the donor-restricted endowment may be used for general purposes. The board-designated endowment fund consists of funds set aside for long-term purposes.

**NOTE 3 LEASES – ASC 842**

Cocoon House leases a copy machine under a long-term, noncancelable lease agreement. The lease expires in 2027 and will renew month-to-month unless terminated with written notice of at least 60 days. In the normal course of business, it is expected that this lease will be renewed or replaced by similar leases. Additionally, the agreement requires Cocoon House to pay taxes, insurance, and repairs.

The following table provides quantitative information concerning Cocoon House's leases.

	2022
Financing Lease Costs:	
Amortization of right-of-use asset	\$ 896
Interest on Lease Liability	310
Total Lease Costs	\$ 1,206

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**NOTE 3 LEASES – ASC 842 (CONTINUED)**

Cocoon House classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2022, is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 4,260
2024	4,260
2025	4,260
2026	4,260
2027	3,195
Total Lease Payments	<u>20,235</u>
Less: Interest	<u>(3,062)</u>
Present Value of Lease Liability	<u>\$ 17,173</u>

**NOTE 4 INVESTMENTS AND ASSETS HELD IN TRUST**

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

	<u>2022</u>	<u>2021</u>
Investments:		
Mutual Funds	\$ 869,336	\$ 1,020,383
Cash	19,124	22,553
Total Investments	<u>\$ 888,460</u>	<u>\$ 1,042,936</u>
Assets Held in Trust:		
Board-Designated Endowment:		
Community Foundation of Snohomish County	\$ 14,073	\$ 15,620
Donor-Restricted Endowment:		
Community Foundation of Snohomish County	83,560	92,550
Total Assets Held in Trust	<u>\$ 97,633</u>	<u>\$ 108,170</u>

Investment returns for the year ended June 30, 2022 consisted of the following:

	<u>Nonendowment Funds</u>	<u>Assets Held in Trust</u>	<u>Total</u>
Dividends and Interest	\$ 34,380	\$ -	\$ 34,380
Net Realized and Unrealized Gains and Losses	<u>(173,473)</u>	<u>(10,537)</u>	<u>(184,010)</u>
Total	<u>\$ (139,093)</u>	<u>\$ (10,537)</u>	<u>\$ (149,630)</u>

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**NOTE 4 INVESTMENTS AND ASSETS HELD IN TRUST (CONTINUED)**

Investment returns for the year ended June 30, 2021 consisted of the following:

	Nonendowment Funds	Assets Held in Trust	Total
Dividends and Interest	\$ 28,936	\$ -	\$ 28,936
Net Realized and Unrealized Gains and Losses	200,706	18,219	218,925
Total	<u>\$ 229,642</u>	<u>\$ 18,219</u>	<u>\$ 247,861</u>

Investment income is reported net of related investment expenses in the statement of activities. Investment expenses were \$10,277 and \$9,010 for the years ended June 30, 2022 and 2021, respectively.

**NOTE 5 ASSETS HELD IN TRUST**

The Agency's endowment investments have been transferred to the Community Foundation of Snohomish County (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 6 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 1. As described in Note 5, 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 ASC 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.

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**NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)**

Since the Foundation investment portfolio is comprised of many different investments with varying levels of observable inputs, the valuation of the entire portfolio cannot be directly corroborated with observable market data. Therefore, the Agency reports the funds as falling within Level 3 of the fair value measurement standards. The Agency recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no transfers for the years ended June 30, 2022 and 2021.

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

	<u>2022</u>	<u>2021</u>
Balance - Beginning of Year	\$ 108,170	\$ 89,951
Investment Income (Loss)	(8,632)	19,896
Management Fees	<u>(1,905)</u>	<u>(1,677)</u>
Balance - End of Year	<u>\$ 97,633</u>	<u>\$ 108,170</u>
Change in Unrealized Gains (Losses) for the Period Included in the Change in Net Assets for Assets Held at the End of the Reporting Period	<u>\$ (8,632)</u>	<u>\$ 19,896</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 7 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 2022 and 2021, long-term receivables were discounted using a 5% and 3% annual rate, respectively. 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.

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**NOTE 7 CONTRIBUTIONS RECEIVABLE (CONTINUED)**

The contributions receivable balances were as follows at June 30:

	2022	2021
Due to be Collected:		
In Less Than One Year	\$ 62,865	\$ 92,994
One to Five Years	43,295	94,623
Subtotal	106,160	187,617
Less: Allowance	-	(15,220)
Less: Discount	(4,914)	(4,094)
Total Contributions Receivable	\$ 101,246	\$ 168,303

**NOTE 8 PROPERTY AND EQUIPMENT**

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

	2022	2021
Land	\$ 2,620,446	\$ 2,118,404
Buildings and Building Improvements	13,907,224	13,907,224
Furniture and Equipment	445,349	427,421
Vehicles	226,205	54,394
Total	17,199,224	16,507,443
Less: Accumulated Depreciation	(2,043,010)	(1,614,748)
Total Property and Equipment Cost	\$ 15,156,214	\$ 14,892,695

**NOTE 9 UNEMPLOYMENT SELF INSURANCE**

The Agency is self-insured for unemployment claims. The liability is the maximum amount the Agency would pay for claims that have been filed based on reports provided by the state of Washington. There was no liability recorded at June 30, 2022 or 2021.

**NOTE 10 ENDOWMENT FUND**

Endowment funds are donations restricted by the donor to be held in perpetuity, with the income to be used to support the Agency. At June 30, 2022 and 2021, 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 and appropriate investment income earned on the endowment in the year it is received.

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**NOTE 10 ENDOWMENT FUND (CONTINUED)**

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 5.

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, we retain in perpetuity (a) the original value of gifts donated to the permanent endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by PMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

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

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

The following describes the net asset composition of the endowment funds at June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Sarri Gilman Endowment Fund	\$ -	\$ 83,560	\$ 83,560
Board-Designated Endowment Fund	14,073	-	14,073
Total	<u>\$ 14,073</u>	<u>\$ 83,560</u>	<u>\$ 97,633</u>

The following describes the net asset composition of the endowment funds at June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Sarri Gilman Endowment Fund	\$ -	\$ 92,550	\$ 92,550
Board-Designated Endowment Fund	15,620	-	15,620
Total	<u>\$ 15,620</u>	<u>\$ 92,550</u>	<u>\$ 108,170</u>

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**NOTE 10 ENDOWMENT FUND (CONTINUED)**

The following describes the changes in the endowment funds for the years ended June 30, 2022 and 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - June 30, 2021	\$ 15,620	\$ 92,550	\$ 108,170
Investment Income	(1,547)	(8,990)	(10,537)
Endowment Net Assets - June 30, 2022	<u>\$ 14,073</u>	<u>\$ 83,560</u>	<u>\$ 97,633</u>

**NOTE 11 FUNDRAISING EVENTS**

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

	2022	2021
Gross Revenue	\$ 176,111	\$ 351,820
Direct Expense	(44,136)	(44,863)
Total	<u>\$ 131,975</u>	<u>\$ 306,957</u>

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

**NOTE 12 LINE OF CREDIT**

The Agency has a \$350,000 revolving line of credit, secured by accounts receivable. Borrowings under the line bear interest at the bank's prime rate, or a floor of 3.25% (4.75% at June 30, 2022 and 4.25% at June 30, 2021). The line of credit was renewed in November of 2021 increasing from \$250,000 to \$350,000 with interest at the bank's prime rate, or a floor of 3.25%. Accrued interest and principal are due at maturity on November 27, 2022. No amounts were outstanding on the line at June 30, 2022 or 2021.



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**NOTE 13 LONG-TERM DEBT**

The notes payable at June 30 were:

<u>Description</u>	<u>2022</u>	<u>2021</u>
Note payable to Snohomish County dated April 19, 2018 for \$400,000, interest at 0%, principal due at maturity, June 1, 2059	\$ 400,000	\$ 400,000
Note payable to Snohomish County dated June 2019, for \$327,500, interest at 0%, principal due at maturity, July 1, 2059	<u>327,500</u>	<u>327,500</u>
Total Debt	<u>727,500</u>	<u>727,500</u>
Less: Current Portion	<u>-</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 727,500</u>	<u>\$ 727,500</u>

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	<u>727,500</u>
Total	<u>\$ 727,500</u>

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 14 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.

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.

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**NOTE 14 FORGIVABLE LOANS (CONTINUED)**

Forgivable loans consisted of the following at June 30:

<u>Description</u>	<u>2022</u>	<u>2021</u>
<u>North Shelter</u>		
Note payable to State of Washington Department of Commerce 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 \$347,228	\$ 261,306	\$ 261,306
 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 \$347,228	 284,316	 284,316
<u>East Shelter</u>		
Note payable to State of Washington Department of Commerce 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 \$739,010	842,439	842,439
 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 \$739,010	 95,640	 95,640
<u>Colby Property</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 as of December 31, 2018; property was sold during fiscal year 2019 and loan collateral was transferred to the Colby property	63,269	63,269

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**NOTE 14 FORGIVABLE LOANS (CONTINUED)**

<u>Description</u>	<u>2022</u>	<u>2021</u>
<u>Colby Property (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 \$362,069 as of December 31, 2018; property was sold during fiscal year 2019 and loan collateral was transferred to the Colby property	\$ 60,000	\$ 60,000
<u>Colby Avenue Youth Center</u>		
Note payable to State of Washington Department of Commerce for \$3,750,000; amended January 2020 to \$3,962,787 interest at 0%; if the organization remains in compliance, principal will be forgiven at maturity, April 2059; collateralized by a deed of trust on the property with a carrying value of \$13,958,928	3,962,787	3,962,787
Note payable to State of Washington Department of Commerce for \$970,000; interest at 0%; if funds are not used as required by the contract for a period of 10 years, unpaid principal balance with 5% interest will be due in full; matures May 2028; collateralized by a deed of trust on the property with a carrying value of \$13,958,928	970,000	970,000
Note payable to State of Washington Department of Commerce for \$615,950; interest at 0%; if funds are not used as required by the contract for a period of 10 years, unpaid principal balance will be due in full; matures August 2029; collateralized by a deed of trust on the property with a carrying value of \$13,958,928	615,950	615,950
Note payable to City of Everett for \$400,000; interest at 0%; if the organization remains in compliance, principal will be forgiven at maturity, June 2059; collateralized by a deed of trust on the property with a carrying value of \$13,958,928	400,000	400,000
Note payable to Snohomish County for \$131,539; interest at 0%; if the organization remains in compliance, principal will be forgiven at maturity, August 2039; collateralized by a deed of trust on the property with a carrying value of \$13,958,928	131,539	131,539

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**NOTE 14 FORGIVABLE LOANS (CONTINUED)**

<u>Description</u>	<u>2022</u>	<u>2021</u>
<u>Colby Avenue Youth Center (Continued)</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 \$13,958,928	\$ 258,334	\$ 258,334
 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 \$13,958,928	 250,000	 250,000
 Note payable to Snohomish County for \$925,000; interest at 0%; if the organization remains in compliance, principal will be forgiven at maturity, June 2059; collateralized by a deed of trust on the property with a carrying value of \$13,958,928	 <u>925,000</u>	 <u>925,000</u>
Total Forgivable Loans	9,120,580	9,120,580
Less: Current Portion	<u>-</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 9,120,580</u>	<u>\$ 9,120,580</u>

Aggregate maturities of forgivable loans for the next five years and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	9,120,580
Total	<u>\$ 9,120,580</u>

**COCOON HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2021)**

**NOTE 15 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>2022</u>	<u>2021</u>
Subject to Expenditure for Specified Purpose:		
Capital Campaign	\$ -	\$ 187,617
Earnings on Endowment	30,065	39,055
Program Activities	<u>125,690</u>	<u>259,991</u>
Total	155,755	486,663
Endowments:		
Restricted by Donors for:		
Program Activities	<u>53,495</u>	<u>53,495</u>
Total Net Assets with Donor Restrictions	<u>\$ 209,250</u>	<u>\$ 540,158</u>

**NOTE 16 CONCENTRATIONS, COMMITMENTS, AND CONTINGENCIES**

As discussed in Notes 13 and 14, 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 government agencies totaled 87% and 66% of total public support and revenue for the years ended June 30, 2022 and 2021, respectively. Receivables from government grants totaled 89% and 83% of total grants and promises receivable at June 30, 2022 and 2021, 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 2022 or 2021.

**NOTE 17 RISKS AND UNCERTAINTIES**

During fiscal 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Agency, COVID-19 may impact various parts of its fiscal 2023 operations and financial results, including government funding. Management believes the Agency is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

**COCOON HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**  
**(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2021)**

**NOTE 18 CONTRIBUTED NONFINANCIAL ASSETS**

The Agency received the following contributions of nonfinancial assets for the year ending June 30:

	2022	2021
Clothing and Household Goods	\$ 66,190	\$ 56,608
Food	6,930	9,331
Sundry Items	16,985	9,947
Gift Cards	9,715	9,738
FMV of Auction Items (Recorded in Contributions)	22,030	24,677
Total Contribution Nonfinancial Assets	\$ 121,850	\$ 110,301

Contributed Household goods, food, sundry items, and gift cards are recorded as in-kind contribution revenue and expense when received. Inventory is adjusted annually based on the year-end physical count. The Agency utilized three inventory valuation methods during the years ended June 30, 2022 and 2021. These methods include (1) current price located on publicly available websites if the inventory item is a match for the website item when donated; (2) thrift shop value on a publicly available website if the item donated has been used; (3) the current average price located on a publicly available website for similar items if a group of items are donated and the items range in price depending on model, size, etc.

The Agency receives items to be sold at its annual auction. Contributed auction items are valued at the gross selling price received at auction.

**NOTE 19 SUBSEQUENT EVENTS**

The Agency has evaluated subsequent events through November 21, 2022, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

**COCOON HOUSE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2022**

Federal Grantor / Pass-Through Grantor Program Title	Federal Assistance Listing Number	Federal Grantor / Pass-Through Grantor Number	Expenditures
U.S. Department of Health and Human Services:			
Direct Programs:			
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth	93.557	90YO2361-02-00	\$ 37,441
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth	93.557	90YO2361-03-00	110,237
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth	93.557	90YO2361-01-00C3	2,803
Total			<u>150,481</u>
Basic Center Grant	93.623	90CY7032-03-00	42,245
Basic Center Grant	93.623	90CY7374-01-00	122,548
Basic Center Grant	93.623	90CY7032-02-00C3	13,803
Basic Center Grant	93.623	90CY7091-02-00	70,677
Basic Center Grant	93.623	90CY7091-03-00	109,652
Total			<u>358,925</u>
Transitional Living for Homeless Youth	93.550	90CX7134-04-01	35,004
Transitional Living for Homeless Youth	93.550	90CX7134-05-00	147,788
Transitional Living for Homeless Youth	93.550	90CX7134-03-00C3	9
Transitional Living for Homeless Youth	93.550	90CX7135-04-01	44,736
Transitional Living for Homeless Youth	93.550	90CX7135-05-00	126,896
Transitional Living for Homeless Youth	93.550	90CX7135-03-00C3	3,024
Total			<u>357,457</u>
Total U.S. Department of Health and Human Services Direct Programs			866,863
U.S. Department of Housing and Urban Development			
CDBG -Entitlement Grants Cluster			
Pass-Through Programs from:			
Snohomish County:			
Community Development Block Grant/Entitlement Grants			
Mortgage Loan (Colby Avenue Youth Center)	14.CDBG	HCD-1993-19	170,073
Mortgage Loan (Colby Avenue Youth Center)	14.CDBG	HCD-1993-42	54,927
Mortgage Loan (Colby Avenue Youth Center)	14.CDBG	HCD-1993-39	33,334
Total			<u>258,334</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COCOON HOUSE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2022**

Federal Grantor / Pass-Through Grantor Program Title	Federal Assistance Listing Number	Federal Grantor / Pass-Through Grantor Number	Expenditures
U.S. Department of Housing and Urban Development, Continued			
Pass-Through Programs from:			
Snohomish County:			
Teen Shelter and Transitional Housing	14.CDBG	HCS-20-24-2002-077	\$ 23,493
Mortgage Loan (Colby Avenue Youth Center)	14.CDBG	HCS-17-21-1701-077	131,539
City of Everett:			
Mortgage Loan (U-Turn/Colby)	14.CDBG	Building Acquisition	63,269
Renovation Loan (U-Turn/Colby)	14.CDBG	Building Renovation	60,000
Total			<u>123,269</u>
Way OUT Program	14.CDBG	N/A	<u>12,693</u>
Total Community Development Block Grant			549,328
Pass-Through Programs from:			
Snohomish County:			
Emergency Solutions Grant Program	14.231	HCS-19-32-1935-077	3,129
Emergency Solutions Grant Program	14.231	HCS-19-31-1902-077	31,126
Emergency Solutions Grant Program	14.231	HCS-20-31-2002-077	25,461
Emergency Solutions Grant Program	14.231	HCS-21-33-2102-077	206,538
Total Emergency Solutions Grant Program			<u>266,254</u>
Continuum of Care Program	14.267	HCS-21-50-2039-077	71,195
Continuum of Care Program	14.267	HCS-21-50-2030-077	373,039
Continuum of Care Program	14.267	HCS-21-50-2032-077	463,689
Total Continuum of Care Program			<u>907,923</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.



**COCOON HOUSE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2022**

Federal Grantor / Pass-Through Grantor Program Title	Federal Assistance Listing Number	Federal Grantor / Pass-Through Grantor Number	Expenditures
U.S. Department of Housing and Urban Development, Continued			
Pass-Through Programs from:			
Snohomish County:			
Home Investment Partnerships Program	14.239	HCS-17-42-1617-077(1)	\$ 925,000
City of Everett:			
Home Investment Partnerships Program	14.239	Colby Avenue Youth Center	<u>400,000</u>
Total Home Investment Partnerships Program			<u>1,325,000</u>
Total U.S. Department of Housing and Urban Development			3,048,505
U.S. Department of Justice:			
Services for Trafficking Victims	16.320	2019-VM-BX-0035	142,611
U.S. Department of Labor:			
WIOA Cluster			
Pass-Through Programs from Workforce Snohomish			
WIOA Youth Activities	17.WIOA	21-CCH-X-460-Youth	213,958
U.S. Department of Treasury			
Pass-Through Programs from:			
State of Washington:			
Coronavirus Relief Fund	21.019	21-4614c-221	<u>7,067</u>
Snohomish County:			
Emergency Rental Assistance Program	21.023	HCS-21-17-2102-077	2,780,656
Emergency Rental Assistance Program	21.023	HCS-21-17-2105-077	<u>3,191,412</u>
Total Emergency Rental Assistance Program			<u>5,972,068</u>
Coronavirus Relief Fund	21.027	EL-21-AR-09-077	<u>98,120</u>
Total U.S. Department of Treasury			<u>6,077,255</u>
Total Expenditures of Federal Awards			<u>\$ 10,349,192</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COCOON HOUSE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2022**

**NOTE 1 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, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 2 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Agency has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 3 SUBRECIPIENTS**

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

**COCOON HOUSE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2022**

**NOTE 4 LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS**

Loans with continuing compliance requirements presented on the Schedule were passed through from the U.S. Department of Housing and Urban Development. Loans are forgivable on the maturity dates as long as Cocoon House remains in compliance with certain program regulations through maturity. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2022 consisted of:

Purpose	ALN	Maturity Date	Outstanding Balance
Complex	14.218	June 2035	\$ 258,334
Colby Youth Center	14.218	May 2037	63,269
Colby Youth Center	14.218	January 2038	60,000
Colby Youth Center	14.218	August 2039	131,539
Total Community Development Block Grant Program			513,142
Colby Avenue Youth Center	14.239	June 2059	400,000
Colby Avenue Youth Center	14.239	June 2059	925,000
Total Home Investment Partnership Program			1,325,000
Grand Total			\$ 1,838,142



**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  
Everett, 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, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cocoon House's internal control over financial reporting (internal control) as a basis for designing 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 Cocoon House's internal control. Accordingly, we do not express an opinion on the effectiveness of Cocoon House'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.

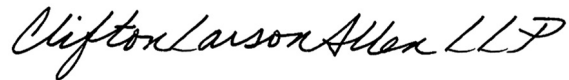
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cocoon House'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 financial statements. 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.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
November 21, 2022



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
Cocoon House  
Everett, Washington

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited Cocoon House's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Cocoon House's major federal programs for the year ended June 30, 2022. Cocoon House's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Cocoon House complied, in all material respects, with the 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, 2022.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Cocoon House and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Cocoon House's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Cocoon House's federal programs.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Cocoon House's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Cocoon House's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Cocoon House's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Cocoon House's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Cocoon House's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on Cocoon House's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Cocoon House's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002, to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on Cocoon House's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Cocoon House's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
November 21, 2022



**COCOON HOUSE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2022**

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***Section I – Summary of Auditors’ Results***

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***Financial Statements***

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? \_\_\_\_\_ yes        x   no
  - Significant deficiency(ies) identified? \_\_\_\_\_ yes        x   none reported
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes        x   no

***Federal Awards***

1. Internal control over major federal programs:
- Material weakness(es) identified? \_\_\_\_\_ yes        x   no
  - Significant deficiency(ies) identified?   x   yes      \_\_\_\_\_ none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?   x   yes      \_\_\_\_\_ no

***Identification of Major Federal Programs:***

<u>ALN</u>	<u>Name of Federal Program</u>	<u>Compliance Opinion</u>
14.267	Continuum of Care Program	Unmodified
21.023	Emergency Rental Assistance Program	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$   750,000  

Auditee qualified as low-risk auditee?   x   yes      \_\_\_\_\_ no

**COCOON HOUSE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2022**

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***Section II – Financial Statement Findings***

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Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

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***Section III – Findings and Questioned Costs – Major Federal Programs***

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**2022 – 001**

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Name: Continuum of Care Program

Assistance Listing Number: 14.267

Federal Award Identification Number and Year: WA0000U0T042006 05/25/2021

Pass-Through Agency: Snohomish County Human Services

Pass-Through Number(s): HCS-21-50-2030-077, HCS-21-50-2032-077

Award Period: July 1, 2021 – June 30, 2022

Type of Finding: Significant Deficiency in Internal Control over Compliance

**Criteria or specific requirement:** For grants and cooperative agreements, the procurement method used must be appropriate based on the dollar amount and conditions specified in 2 CFR section 200.320 or the entities policies, whichever is more restrictive.

**Condition:** Procurement procedures were not followed in accordance with the Agency's policy.

**Questioned costs:** None

**Context:** 5 out of 40 procurement transactions tested were not in compliance.

**Cause:** The Agency did not follow its procurement policy.

**Effect:** The Agency is out of compliance with its procurement policy.

**Repeat Finding:** N/A

**Recommendation:** We recommend the Agency's procurement policy is updated to reflect the current federal guidelines and that policies and procedures are implemented to ensure that the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price is documented as applicable (2 CFR section 200.318(i) and 48 CFR Part 44 and section 52.244-2).

**Views of responsible officials:** There is no disagreement with the audit finding.

**COCOON HOUSE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2022**

**2022 – 002**

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Name: Continuum of Care Program

Assistance Listing Number: 14.267

Federal Award Identification Number and Year: WA0000U0T042006 05/25/2021

Pass-Through Agency: Snohomish County Human Services

Pass-Through Number(s): HCS-21-50-2039-077, HCS-21-50-2030-077, HCS-21-50-2032-077

Award Period: July 1, 2021 – June 30, 2022

Type of Finding: Significant Deficiency in Internal Control over Compliance

**Criteria or specific requirement:** Procedures for verifying that an entity with which an organization plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded must be documented. (2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; 48 CFR section 52.209-6).

**Condition:** Documentation of the Agency's procedures for verifying that an entity with which the Agency entered into covered transaction was not debarred, suspended, or otherwise excluded was not maintained for three out of three transactions tested.

**Questioned costs:** None

**Context:** 3 out of 3 covered transactions tested were not in compliance.

**Cause:** Procedures were followed but not documented.

**Effect:** Appropriate documentation was not maintained as required.

**Repeat Finding:** N/A

**Recommendation:** We recommend that policies and procedures are implemented to ensure that appropriate documentation is maintained when entering into transaction with covered entities as defined by 2 CFR section 180.220.

**Views of responsible officials:** There is no disagreement with the audit finding.



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