

COCOON HOUSE
**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2022)



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**COCOON HOUSE
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2022)**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF ACTIVITIES	5
STATEMENT OF FUNCTIONAL EXPENSES	6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	29
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	32
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 <i>GOVERNMENT AUDITING STANDARDS</i>	34
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	36
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39



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, 2023, 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, 2023, 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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, 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.

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 20, 2023, 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 20, 2023

COCOON HOUSE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2022)

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 454,262	\$ 1,263,499
Accounts Receivable	16,261	2,413
Government Grants Receivable	1,476,306	817,906
Contributions Receivable, Current Portion	15,011	62,865
Prepaid Expenses and Other	189,606	189,591
Total Current Assets	2,151,446	2,336,274
Contributions Receivable, Noncurrent	23,161	38,381
Investments	981,082	888,460
Assets Held in Trust - Endowment	106,336	97,633
Property and Equipment, Net	14,741,827	15,156,214
Total Assets	\$ 18,003,852	\$ 18,516,962
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 73,891	\$ 97,116
Accrued Liabilities	302,381	270,809
Current Lease Liability - Financing	3,386	3,158
Total Current Liabilities	379,658	371,083
Long-Term Debt, Less Unamortized Issuance Costs	727,500	727,500
Forgivable Loans	9,120,580	9,120,580
Long-Term Lease Liability -Financing	10,628	14,015
Accrued Interest Payable - Forgivable Loans	42,577	38,879
Total Liabilities	10,280,943	10,272,057
NET ASSETS		
Without Donor Restrictions:		
Designated by Board for Long-Term Investment - Endowment	12,343	14,073
Designated by Board for Liquidity Reserve	981,082	888,460
Other	6,575,260	7,133,122
Total Without Donor Restrictions	7,568,685	8,035,655
With Donor Restrictions:		
Perpetual in Nature	53,495	53,495
Purpose Restrictions	100,729	155,755
Total With Donor Restrictions	154,224	209,250
Total Net Assets	7,722,909	8,244,905
Total Liabilities and Net Assets	\$ 18,003,852	\$ 18,516,962

See accompanying Notes to Financial Statements.

COCOON HOUSE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2023	2022
OPERATING ACTIVITIES				
Public Support and Revenue:				
Government Grants and Contracts	\$ 11,141,525	\$ -	\$ 11,141,525	\$ 10,229,625
Contributions	1,392,877	63,215	1,456,092	1,461,423
Contributed Nonfinancial Assets	241,115	-	241,115	99,820
Investment Income (Loss)	106,246	7,449	113,695	(149,630)
Rental Revenue	77,272	-	77,272	71,383
Other Revenue	3,547	-	3,547	800
Net Assets Released from Restrictions	125,690	(125,690)	-	-
Total Public Support and Revenue	<u>13,088,272</u>	<u>(55,026)</u>	<u>13,033,246</u>	<u>11,713,421</u>
Operating Expenses:				
Program Services:				
Housing	3,563,368	-	3,563,368	2,930,284
Outreach	1,252,142	-	1,252,142	1,152,260
Prevention	267,280	-	267,280	231,006
Employment	396,732	-	396,732	195,810
COVID-19 Assistance	6,147,324	-	6,147,324	5,855,531
Total Program Services	<u>11,626,846</u>	<u>-</u>	<u>11,626,846</u>	<u>10,364,891</u>
Supporting Services:				
Management and General	941,245	-	941,245	757,117
Fundraising	529,076	-	529,076	410,924
Total Operating Expenses	<u>13,097,167</u>	<u>-</u>	<u>13,097,167</u>	<u>11,532,932</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE DEPRECIATION	(8,895)	(55,026)	(63,921)	180,489
DEPRECIATION	<u>465,692</u>	<u>-</u>	<u>465,692</u>	<u>436,173</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(474,587)	(55,026)	(529,613)	(255,684)
NONOPERATING ACTIVITIES				
Insurance Recovery	7,617	-	7,617	-
Gain on Sale of Property	-	-	-	7,310
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES	<u>7,617</u>	<u>-</u>	<u>7,617</u>	<u>7,310</u>
CHANGE IN NET ASSETS	(466,970)	(55,026)	(521,996)	(248,374)
Net Assets- Beginning of Year	<u>8,035,655</u>	<u>209,250</u>	<u>8,244,905</u>	<u>8,493,279</u>
NET ASSETS - END OF YEAR	<u>\$ 7,568,685</u>	<u>\$ 154,224</u>	<u>\$ 7,722,909</u>	<u>\$ 8,244,905</u>

See accompanying Notes to Financial Statements.

COCOON HOUSE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2022)

	Program Services					Total Program Services	Management and General	Fundraising	Totals	
	Housing	Outreach	Prevention	Employment	COVID-19 Assistance				2023	2022
Salaries, Wages, Taxes, and Benefits	\$ 2,540,974	\$ 897,978	\$ 221,257	\$ 339,188	\$ 200,801	\$ 4,200,198	\$ 805,086	\$ 346,501	\$ 5,351,785	\$ 4,483,436
Supplies	60,927	15,780	2,735	199	7,056	86,697	30,831	44,521	162,049	175,689
Communications	33,968	12,299	1,992	1,354	2,961	52,574	31,429	8,150	92,153	85,250
Professional Fees	38,695	136,851	4,843	495	390	181,274	5,444	48,003	234,721	197,240
Travel	18,111	13,915	2,777	3,539	1,223	39,565	4,504	147	44,216	25,769
Insurance	51,030	14,484	1,931	624	4,023	72,092	7,666	2,833	82,591	87,634
Occupancy	183,651	28,736	8,244	9	8,030	228,670	9,890	5,517	244,077	258,610
Assistance to Individuals	376,523	54,810	472	30,689	5,911,529	6,374,023	12	571	6,374,606	5,958,564
Food and Beverage	46,670	7,206	2,197	188	1,993	58,254	758	50,006	109,018	59,260
In-Kind Supplies and Services	157,933	50,832	14,986	9,148	7,319	240,218	-	-	240,218	109,592
Staff Training	31,094	10,507	4,374	2,662	1,096	49,733	5,677	1,057	56,467	25,175
Dues/Fees/Other	23,792	8,744	1,472	8,637	903	43,548	39,948	21,770	105,266	66,713
Total	<u>3,563,368</u>	<u>1,252,142</u>	<u>267,280</u>	<u>396,732</u>	<u>6,147,324</u>	<u>11,626,846</u>	<u>941,245</u>	<u>529,076</u>	<u>13,097,167</u>	<u>11,532,932</u>
Depreciation	<u>302,062</u>	<u>106,672</u>	<u>5,746</u>	<u>-</u>	<u>-</u>	<u>414,480</u>	<u>32,087</u>	<u>19,125</u>	<u>465,692</u>	<u>436,173</u>
Total Expenses	<u>\$ 3,865,430</u>	<u>\$ 1,358,814</u>	<u>\$ 273,026</u>	<u>\$ 396,732</u>	<u>\$ 6,147,324</u>	<u>\$ 12,041,326</u>	<u>\$ 973,332</u>	<u>\$ 548,201</u>	<u>\$ 13,562,859</u>	<u>\$ 11,969,105</u>

See accompanying Notes to Financial Statements.

**COCOON HOUSE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2022)**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenue Collected:		
Government Grants and Contracts	\$ 10,483,125	\$ 10,222,835
Contributions	1,442,244	1,693,367
Other Revenue	123,007	106,904
Compensation and Payments to Suppliers	<u>(12,846,426)</u>	<u>(11,578,211)</u>
Net Cash Provided (Used) by Operating Activities	(798,050)	444,895
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	2,655	5,512
Purchases of Investments and Reinvested Dividends	(24,856)	(24,850)
Proceeds from Sale of Property	-	9,722
Purchases of Property and Equipment	<u>(51,305)</u>	<u>(702,104)</u>
Net Cash Used by Investing Activities	(73,506)	(711,720)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Finance Leases	(755)	(755)
Proceeds from Capital Contributions	<u>63,074</u>	<u>67,057</u>
Net Cash Provided by Financing Activities	<u>62,319</u>	<u>66,302</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(809,237)	(200,523)
 Cash and Cash Equivalents - Beginning of Year	<u>1,263,499</u>	<u>1,464,022</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 454,262</u></u>	<u><u>\$ 1,263,499</u></u>

See accompanying Notes to Financial Statements.

COCOON HOUSE
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2022)

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

Change in Net Assets	\$ (521,996)	\$ (248,374)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided (Used) by Operating Activities:		
Gain from Disposal of Asset	-	(7,310)
Depreciation	465,692	436,173
Capital Contributions	(63,074)	(67,057)
Net Unrealized and Realized (Gains) Losses on Investments	(79,124)	184,351
In-Kind Donation of Inventory	(897)	9,772
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(13,848)	231,944
Government Grants Receivable	(658,400)	(6,790)
Contributions Receivable	63,074	67,057
Prepaid Expenses and Other	882	(81,696)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(23,225)	(9,495)
Accrued Liabilities	31,572	(85,306)
Lease Liability - Financing	(2,404)	17,928
Accrued Interest Payable	3,698	3,698
Net Cash Provided by Operating Activities	<u>\$ (798,050)</u>	<u>\$ 444,895</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

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

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

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, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

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, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

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, 2022, from which the summarized information was derived.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

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 \$501,287 that have not been recognized at June 30, 2023 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 1,058 and 916 hours were contributed by volunteers during fiscal 2023 and 2022, 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

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

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 2023.

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, 2023, there were no cash balances over the federally insured limits. 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.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

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.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financing leases at June 30, 2023 and 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.

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:

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 454,262	\$ 1,263,499
Accounts Receivable	16,261	2,413
Government Grants Receivable	<u>1,476,306</u>	<u>817,906</u>
Total	<u>\$ 1,946,829</u>	<u>\$ 2,083,818</u>

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 \$981,082 as of June 30, 2023 and \$888,460 as of June 30, 2022. 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.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)

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.

	<u>2023</u>
Financing Lease Costs:	
Amortization of right-of-use asset	\$ 3,586
Interest on Lease Liability	1,102
Total Lease Costs	<u>\$ 4,688</u>

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, 2023, is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 4,260
2025	4,260
2026	4,260
2027	3,195
Total Lease Payments	15,975
Less: Interest	(1,961)
Present Value of Lease Liability	<u>\$ 14,014</u>

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 4 INVESTMENTS AND ASSETS HELD IN TRUST

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

	<u>2023</u>	<u>2022</u>
Investments:		
Mutual Funds	\$ 950,643	\$ 869,336
Cash	30,439	19,124
Total Investments	<u>\$ 981,082</u>	<u>\$ 888,460</u>
Assets Held in Trust:		
Board-Designated Endowment:		
Community Foundation of Snohomish County	\$ 12,343	\$ 14,073
Donor-Restricted Endowment:		
Community Foundation of Snohomish County	93,993	83,560
Total Assets Held in Trust	<u>\$ 106,336</u>	<u>\$ 97,633</u>

Investment returns for the year ended June 30, 2023 consisted of the following:

	<u>Nonendowment Funds</u>	<u>Assets Held in Trust</u>	<u>Total</u>
Dividends and Interest	\$ 25,689	\$ -	\$ 25,689
Net Realized and Unrealized Gains and Losses	79,303	8,703	88,006
Total	<u>\$ 104,992</u>	<u>\$ 8,703</u>	<u>\$ 113,695</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	(173,473)	(10,537)	(184,010)
Total	<u>\$ (139,093)</u>	<u>\$ (10,537)</u>	<u>\$ (149,630)</u>

Investment income is reported net of related investment expenses in the statement of activities. Investment expenses were \$8,892 and \$7,162 for the years ended June 30, 2023 and 2022, 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.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 5 ASSETS HELD IN TRUST (CONTINUED)

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.

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, 2023 and 2022.

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

	<u>2023</u>	<u>2022</u>
Balance - Beginning of Year	\$ 97,633	\$ 108,170
Investment Income (Loss)	10,433	(8,632)
Management Fees	(1,730)	(1,905)
Balance - End of Year	<u>\$ 106,336</u>	<u>\$ 97,633</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>\$ 10,433</u>	<u>\$ (8,632)</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.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present the fair value hierarchy for those assets measured at fair value on recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2023</u>				
Assets:				
Mutual Funds	\$ 950,643	\$ -	\$ -	\$ 950,643
Cash	30,439	-	-	30,439
Endowment	-	-	106,336	106,336
Total Assets at Fair Value	<u>\$ 981,082</u>	<u>\$ -</u>	<u>\$ 106,336</u>	<u>\$ 1,087,418</u>

<u>June 30, 2022</u>				
Assets:				
Mutual Funds	\$ 869,336	\$ -	\$ -	\$ 869,336
Cash	19,124	-	-	19,124
Endowment	-	-	97,633	97,633
Total Assets at Fair Value	<u>\$ 888,460</u>	<u>\$ -</u>	<u>\$ 97,633</u>	<u>\$ 986,093</u>

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 2023 and 2022, 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.

The contributions receivable balances were as follows at June 30:

	<u>2023</u>	<u>2022</u>
Due to be Collected:		
In Less Than One Year	\$ 18,511	\$ 62,865
One to Five Years	30,000	43,295
Subtotal	<u>48,511</u>	<u>106,160</u>
Less: Allowance	(3,500)	-
Less: Discount	(6,839)	(4,914)
Total Contributions Receivable	<u>\$ 38,172</u>	<u>\$ 101,246</u>

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 8 PROPERTY AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Land	\$ 2,620,446	2,620,446
Buildings and Building Improvements	13,907,224	13,907,224
Furniture and Equipment	445,349	445,349
Vehicles	272,495	226,205
Construction in Progress	5,016	-
Total	<u>17,250,530</u>	<u>17,199,224</u>
Less: Accumulated Depreciation	<u>(2,508,703)</u>	<u>(2,043,010)</u>
Total Property and Equipment Cost	<u>\$ 14,741,827</u>	<u>\$ 15,156,214</u>

Construction in progress at June 30, 2023, was related to the parking lot improvements.

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, 2023 or 2022.

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, 2023 and 2022, 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.

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.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 10 ENDOWMENT FUND (CONTINUED)

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, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Sarri Gilman Endowment Fund	\$ -	\$ 93,993	\$ 93,993
Board-Designated Endowment Fund	12,343	-	12,343
Total	<u>\$ 12,343</u>	<u>\$ 93,993</u>	<u>\$ 106,336</u>

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 changes in the endowment funds for the years ended June 30, 2023 and 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - June 30, 2022	\$ 14,073	\$ 83,560	\$ 97,633
Investment Income	(1,730)	10,433	8,703
Endowment Net Assets - June 30, 2023	<u>\$ 12,343</u>	<u>\$ 93,993</u>	<u>\$ 106,336</u>

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 11 FUNDRAISING EVENTS

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

	<u>2023</u>	<u>2022</u>
Gross Revenue	\$ 397,058	\$ 176,111
Direct Expense	(108,323)	(44,136)
Total	<u>\$ 288,735</u>	<u>\$ 131,975</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% (8.25% at June 30, 2023 and 4.75% at June 30, 2022). 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, 2023. No amounts were outstanding on the line at June 30, 2023 or 2022.

NOTE 13 LONG-TERM DEBT

The notes payable at June 30 were:

<u>Description</u>	<u>2023</u>	<u>2022</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	727,500	727,500
Less: Current Portion	-	-
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:

**COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)**

NOTE 13 LONG-TERM DEBT (CONTINUED)

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ -
2025	-
2026	-
2027	-
2028	-
Thereafter	727,500
Total	\$ 727,500

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.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 14 FORGIVABLE LOANS (CONTINUED)

Forgivable loans consisted of the following at June 30:

<u>Description</u>	<u>2023</u>	<u>2022</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

**COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)**

NOTE 14 FORGIVABLE LOANS (CONTINUED)

<u>Description</u>	<u>2023</u>	<u>2022</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

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 14 FORGIVABLE LOANS (CONTINUED)

<u>Description</u>	<u>2023</u>	<u>2022</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>
2024	\$ -
2025	-
2026	-
2027	-
2028	-
Thereafter	<u>9,120,580</u>
Total	<u>\$ 9,120,580</u>

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 15 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Subject to Expenditure for Specified Purpose:		
Earnings on Endowment	\$ 37,514	\$ 30,065
Program Activities	63,215	125,690
Total	<u>100,729</u>	<u>155,755</u>
Endowments:		
Restricted by Donors for:		
Program Activities	53,495	53,495
Total Net Assets with Donor Restrictions	<u>\$ 154,224</u>	<u>\$ 209,250</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 85% and 87% of total public support and revenue for the years ended June 30, 2023 and 2022, respectively. Receivables from government grants totaled 97% and 89% of total grants and promises receivable at June 30, 2023 and 2022, 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 2023 or 2022.

COCOON HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND FOR JUNE 30, 2022)

NOTE 17 CONTRIBUTED NONFINANCIAL ASSETS

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

	2023	2022
Clothing and Household Goods	\$ 58,112	\$ 66,190
Food	9,286	6,930
Sundry Items	166,221	16,985
Gift Cards	7,496	9,715
FMV of Auction Items (Recorded in Contributions)	60,395	22,030
Total Contribution Nonfinancial Assets	\$ 301,510	\$ 121,850

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, 2023 and 2022. 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 18 SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through November 20, 2023, 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, 2023

Federal Grantor / Pass-Through Grantor Program Title	Federal Assistance Listing Number	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		\$ 34,843
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless, and Street Youth	93.557		101,298
Total			<u>136,141</u>
Basic Center Grant	93.623		61,518
Basic Center Grant	93.623		161,762
Basic Center Grant	93.623		90,348
Basic Center Grant	93.623		112,340
Total			<u>425,968</u>
Transitional Living for Homeless Youth	93.550		46,938
Transitional Living for Homeless Youth	93.550		200,047
Transitional Living for Homeless Youth	93.550		17,172
Total			<u>264,157</u>
Total U.S. Department of Health and Human Services Direct Programs			826,266
U.S. Department of Housing and Urban Development			
CDBG -Entitlement Grants Cluster			
Pass-Though Programs from:			
Snohomish County:			
Community Development Block Grant/Entitlement Grants			
Mortgage Loan (Colby Avenue Youth Center)	14.218	HCD-1993-19	170,073
Mortgage Loan (Colby Avenue Youth Center)	14.218	HCD-1993-42	54,927
Mortgage Loan (Colby Avenue Youth Center)	14.218	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, 2023

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	14.218	HCS-22-24-2202-077	\$ 49,043
Mortgage Loan (Colby Avenue Youth Center)	14.218	HCS-17-21-1701-077	131,539
City of Everett:			
Mortgage Loan (U-Turn/Colby)	14.218	Building Acquisition	63,269
Renovation Loan (U-Turn/Colby)	14.218	Building Renovation	<u>60,000</u>
Total			<u>123,269</u>
Way OUT Program	14.218	N/A	<u>21,855</u>
Total Community Development Block Grant			584,040
Pass-Through Programs from:			
Snohomish County:			
Emergency Solutions Grant Program	14.231	HCS-19-31-1902-077	47,559
Emergency Solutions Grant Program	14.231	HCS-20-31-2002-077	2,806
Emergency Solutions Grant Program	14.231	HCS-21-33-2102-077	<u>308,229</u>
Total Emergency Solutions Grant Program			<u>358,594</u>
Continuum of Care Program	14.267	HCS-21-50-2039-077	71,069
Continuum of Care Program	14.267	HCS-22-50-2130-077	356,402
Continuum of Care Program	14.267	HCS-22-50-2132-077	<u>632,360</u>
Total Continuum of Care Program			<u>1,059,831</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

COCOON HOUSE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2023

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			3,327,465
U.S. Department of Justice:			
Direct Programs:			
Services for Trafficking Victims	16.320		147,682
U.S. Department of Labor:			
WIOA Cluster			
Pass-Through Programs from Workforce Snohomish			
WIOA Youth Activities	17.259	22-CCH-481-Youth	417,958
U.S. Department of Treasury			
Pass-Through Programs from:			
Snohomish County:			
COVID-19 Emergency Rental Assistance Program	21.023	HCS-21-17-2105-077	<u>1,834,103</u>
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	EL-21-AR-09-077	306,646
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	HCS-22-18-2202-077	<u>3,856,235</u>
Total Coronavirus State and Local Fiscal Recovery Funds			<u>4,162,881</u>
Total U.S. Department of Treasury			<u>5,996,984</u>
Total Expenditures of Federal Awards			<u>\$ 10,716,355</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, 2023

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, 2023. 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, 2023

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, 2023 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, 2023, 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 20, 2023.

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 20, 2023



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, 2023. 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, 2023.

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.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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 20, 2023

**COCOON HOUSE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023**

Section I – Summary of Auditors’ Results

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? _____ yes x 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)? _____ yes x no

Identification of Major Federal Programs:

<u>ALN</u>	<u>Name of Federal Program</u>	<u>Compliance Opinion</u>
14.239	Home Investment Partnerships Program	Unmodified
21.023	Emergency Rental Assistance Program	Unmodified
21.027	Coronavirus State and Local Fiscal Recovery Funds	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, 2023**

Section II – Financial Statement Findings

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

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).



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