



# SPURWINK

**FINANCIAL STATEMENTS**

and

**Government Reports in Accordance with the Uniform Guidance and  
*Maine Uniform Accounting and Auditing Practices for Community Agencies***

**June 30, 2017 and 2016**

**With Independent Auditor's Report**

**SPURWINK SERVICES, INC.**

**Year Ended June 30, 2017**

**Table of Contents**

	<b><u>Page(s)</u></b>
Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6 - 7
Notes to Financial Statements	8 - 22
Supplementary Information:	
Schedule 1 - Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24
Schedule 2 - Schedule of Expenditures of Department Agreements	25
Notes to Schedule of Expenditures of Department Agreements	26
Schedules and Reports in Accordance with GAS, the Uniform Guidance, and MAAP:	
Independent Auditor's 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>	27 - 28
Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance	29 - 30
Schedule of Findings and Questioned Costs Related to Federal Awards	31
Summary Schedule of Prior Year Audit Findings Related to Federal Awards	32
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on the Major Agreement and on Internal Control Over Compliance in Accordance with <i>Maine Uniform         Accounting and Auditing Practices for Community Agencies</i>	33 - 34
Schedule of Findings and Questioned Costs Related to Department Agreements	35
Summary Schedule of Prior Year Findings and Questioned Costs Related to Department Agreements	36



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Spurwink Services, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Spurwink Services, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows and for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

The Board of Directors  
Spurwink Services, Inc.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spurwink Services, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**Other Matter**

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards (Schedule 1) is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. The accompanying schedule of expenditures of Department agreements (Schedule 2) is presented for purposes of additional analysis as required by *Maine Uniform Accounting and Auditing Practices for Community Agencies*, 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 U.S. generally accepted auditing standards. 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 1, 2017 on our consideration of Spurwink Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Spurwink Services, Inc.'s internal control over financial reporting and compliance.

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
November 1, 2017

**SPURWINK SERVICES, INC.**

**Statements of Financial Position**

**June 30, 2017 and 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
Current assets		
Cash	\$ 138,513	\$ 1,657,266
Accounts receivable, net of allowance for doubtful accounts of approximately \$2,265,000 and \$1,375,000 in 2017 and 2016, respectively	7,931,455	6,314,025
Assets whose use is limited, current portion	804,504	884,606
Annuity receivable, current portion	87,750	120,523
Prepaid expenses and other current assets	<u>1,390,243</u>	<u>844,898</u>
Total current assets	<u>10,352,465</u>	<u>9,821,318</u>
Property and equipment		
Land and buildings	18,221,115	18,087,357
Equipment	2,779,178	1,513,826
Automobiles	2,413,694	2,087,777
Leasehold improvements	1,768,667	1,354,217
Projects in progress	<u>5,008,380</u>	<u>1,633,204</u>
	30,191,034	24,676,381
Less accumulated depreciation and amortization	<u>12,668,203</u>	<u>11,536,072</u>
Net property and equipment	<u>17,522,831</u>	<u>13,140,309</u>
Other assets		
Investments	574,325	510,306
Annuity receivable, net of amount required to meet current obligations	1,068,431	1,349,905
Deferred compensation plan	223,529	174,453
Deposits	860,057	734,104
Assets whose use is limited, long-term portion	<u>1,353,751</u>	<u>825,677</u>
Total other assets	<u>4,080,093</u>	<u>3,594,445</u>
Total assets	<u>\$ 31,955,389</u>	<u>\$ 26,556,072</u>

---

The accompanying notes are an integral part of these financial statements.

## LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
Current liabilities		
Line of credit	\$ 600,000	\$ -
Accounts payable and accrued liabilities	3,166,417	2,101,145
Accrued wages and related expenses	1,625,661	1,816,585
Current portion of long-term debt	1,198,536	1,277,705
Current portion of capital leases	25,978	-
Deferred revenue	122,057	390,543
Other current liabilities	<u>203,893</u>	<u>243,568</u>
Total current liabilities	<u>6,942,542</u>	<u>5,829,546</u>
Long-term liabilities		
Long-term debt, net of current portion and unamortized debt issuance costs	9,321,869	6,041,288
Deferred compensation payable, net of current portion	1,291,960	1,486,205
Postretirement benefits, net of current portion	259,894	294,787
Pension liabilities	1,804,379	5,587,907
Deferred lease incentive, net of current portion	-	93,486
Capital leases, net of current portion	<u>120,134</u>	<u>-</u>
Total long-term liabilities	<u>12,798,236</u>	<u>13,503,673</u>
Total liabilities	<u>19,740,778</u>	<u>19,333,219</u>
Net assets		
Unrestricted	12,157,719	7,166,481
Temporarily restricted	28,281	27,761
Permanently restricted	<u>28,611</u>	<u>28,611</u>
Total net assets	<u>12,214,611</u>	<u>7,222,853</u>
Total liabilities and net assets	<u>\$ 31,955,389</u>	<u>\$ 26,556,072</u>

---

**SPURWINK SERVICES, INC.**

**Statements of Activities**

**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Unrestricted revenues, gains and other support		
Fees for services		
State of Maine agencies	\$ 43,868,683	\$ 43,387,874
Maine school districts	3,849,090	3,990,349
Third-party insurance	1,851,377	1,134,293
Private pay	1,251,940	1,985,240
Social Security	304,337	309,326
Medicare	334,539	364,148
Grants	4,469,286	4,292,660
Contributions	803,011	578,126
Investment income	75,576	221,115
Gain on sale of property and equipment	47,157	803,776
Training revenue	355,977	101,222
Other revenue	316,657	338,289
Net assets released from restriction for operations	-	15
Total unrestricted revenues, gains and other support	<u>57,527,630</u>	<u>57,506,433</u>
Unrestricted expenses		
Program services	49,404,114	48,663,545
Management and general	7,079,134	6,924,002
Non-program and fundraising	303,863	409,075
Total unrestricted expenses	<u>56,787,111</u>	<u>55,996,622</u>
Change in unrestricted net assets, before non-operating gain (loss)	740,519	1,509,811
Non-operating gain (loss)		
Change in net assets to recognize funded status of pension plan	<u>4,250,719</u>	<u>(3,122,579)</u>
Change in unrestricted net assets	<u>4,991,238</u>	<u>(1,612,768)</u>
Temporarily restricted activities		
Contributions	520	10,570
Net assets released from restriction for operations	-	(15)
Change in temporarily restricted net assets	<u>520</u>	<u>10,555</u>
Change in net assets	4,991,758	(1,602,213)
Net assets, beginning of year	<u>7,222,853</u>	<u>8,825,066</u>
Net assets, end of year	<u>\$ 12,214,611</u>	<u>\$ 7,222,853</u>

---

The accompanying notes are an integral part of these financial statements.

**SPURWINK SERVICES, INC.**

**Statements of Functional Expenses**

**Years Ended June 30, 2017 and 2016**

	<u>Year Ended June 30, 2017</u>				<u>Year Ended June 30, 2016</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Non- program and Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Non- program and Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 25,167,927	\$ 3,184,039	\$ 80,393	\$ 28,432,359	\$ 26,786,562	\$ 3,443,307	\$ 194,123	\$ 30,423,992
Employee taxes and benefits	6,189,726	1,283,209	10,033	7,482,968	6,057,986	990,363	46,527	7,094,876
Consultants	8,799,268	1,072,086	(40,277)	9,831,077	6,409,942	1,014,383	86,386	7,510,711
Supplies	1,761,688	262,325	10,491	2,034,504	1,834,224	317,671	3,931	2,155,826
Service provider tax	1,276,732	-	-	1,276,732	1,174,936	-	-	1,174,936
Occupancy	2,483,450	482,416	40,945	3,006,811	2,696,315	398,255	18,035	3,112,605
Utilities	745,353	386,536	9,730	1,141,619	760,000	355,307	3,301	1,118,608
Depreciation	990,407	199,535	24,050	1,213,992	854,759	249,448	1,886	1,106,093
Interest	250,866	57,332	55,499	363,697	377,818	35,997	250	414,065
Bad debt expense	1,071,761	-	-	1,071,761	976,247	-	-	976,247
Other	666,936	151,656	112,999	931,591	734,756	119,271	54,636	908,663
Total	<u>\$ 49,404,114</u>	<u>\$ 7,079,134</u>	<u>\$ 303,863</u>	<u>\$ 56,787,111</u>	<u>\$ 48,663,545</u>	<u>\$ 6,924,002</u>	<u>\$ 409,075</u>	<u>\$ 55,996,622</u>

The accompanying notes are an integral part of these financial statements.

**SPURWINK SERVICES, INC.**

**Statements of Cash Flows**

**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 4,991,758	\$ (1,602,213)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,223,923	1,106,093
Accretion of bond premiums	(67,071)	(70,207)
Bad debt expense	1,071,761	976,247
Change in funded status of pension plan	(4,250,719)	3,122,579
Deferred compensation (credit) expense	(100,438)	185,755
Realized and unrealized (gain) loss on investments	(64,019)	11,866
Gain on sale of property and equipment	(47,157)	(803,776)
Increase in		
Accounts receivable	(2,689,191)	(575,248)
Prepaid expenses and other current assets	(545,345)	(372,487)
Annuity receivable	281,474	(46,807)
Deposits	(125,953)	(78,837)
(Decrease) increase in		
Accounts payable and accrued liabilities	1,038,594	578,305
Accrued wages and related expenses	(190,924)	(915,591)
Deferred revenue	(268,486)	(257,595)
Other current liabilities	(6,812)	(154,946)
Deferred lease incentive	(93,486)	(101,985)
Accrued postretirement benefits	(34,893)	(40,188)
Annuity payable and deferred compensation obligation	(93,807)	(97,839)
Pension liability, net	467,191	4,461
Net cash provided by operating activities	<u>496,400</u>	<u>867,587</u>
Cash flows from investing activities		
Purchases of property and equipment	(5,525,800)	(1,480,947)
Proceeds from sale of property and equipment	154,675	1,749,623
Net withdrawals of trustee held funds	80,102	310,084
Deposits and reinvested income in deferred compensation plans	(49,076)	(45,369)
Net change in assets whose use is limited	(528,074)	134,135
Net cash (used) provided by investing activities	<u>(5,868,173)</u>	<u>667,526</u>
Cash flows from financing activities		
Repayment of long-term debt	(1,259,205)	(1,577,158)
Proceeds from issuance of long-term debt	4,517,667	243,494
Net borrowings on line of credit	600,000	-
Repayment of capital leases	(5,442)	-
Net cash provided (used) by financing activities	<u>3,853,020</u>	<u>(1,333,664)</u>
(Decrease) increase in cash	(1,518,753)	201,449
Cash, beginning of year	<u>1,657,266</u>	<u>1,455,817</u>
Cash, end of year	<u>\$ 138,513</u>	<u>\$ 1,657,266</u>

The accompanying notes are an integral part of these financial statements.

**SPURWINK SERVICES, INC.**

**Statements of Cash Flows (Concluded)**

**Years Ended June 30, 2017 and 2016**

	<u><b>2017</b></u>	<u><b>2016</b></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ <u><b>340,540</b></u>	\$ <u><b>441,934</b></u>

Noncash transactions:

During 2017 and 2016, the Organization financed the purchase of vehicles and equipment with capital lease agreements and commercial notes in the amount of \$151,554 and \$187,136, respectively. The leases payable, capital assets and commercial notes have been treated as noncash transactions.

As of June 30, 2017, capital purchases totaling \$337,602 were included in accounts payable. The liability and capital assets have been treated as noncash transactions.

---

The accompanying notes are an integral part of these financial statements.

# SPURWINK SERVICES, INC.

## Notes to Financial Statements

June 30, 2017 and 2016

### **Nature of Activities**

Spurwink Services, Inc. (the Organization) is a private, not-for-profit entity established to promote the delivery of effective mental health services. Spurwink Services, Inc. is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

### **1. Summary of Significant Accounting Policies**

#### **Net Assets**

The net assets of Spurwink Services, Inc. are reported as follows:

##### **Unrestricted Net Assets**

Unrestricted net assets represent unrestricted resources over which Spurwink Services, Inc. retains full control to accomplish any of Spurwink Services, Inc.'s stated purposes.

##### **Temporarily Restricted Net Assets**

Temporarily restricted net assets represent contributions which may only be used in accordance with the donor's wishes and have been restricted for support of various programs.

##### **Permanently Restricted Net Assets**

Permanently restricted net assets represent an endowment fund requiring that principal be invested in perpetuity and that income only be utilized to support various programs according to the donor's wishes.

#### **Contributions**

Contributions are recorded at their fair value on the date of the gift. Spurwink Services, Inc. reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

**Property and Equipment**

Property and equipment are recorded at cost, except for donated assets, which are recorded at fair value at the time of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the respective assets or the term of the lease, whichever is less. Depreciation of owned assets is provided over the estimated useful lives of the respective assets on a straight-line basis. Costs of repairs and maintenance are expensed as incurred.

**Debt Issuance Costs**

Costs associated with the issuance of the Maine Health and Higher Educational Facilities Authority (MHHEFA) bonds referred to in Note 4 have been capitalized, are being amortized over the terms of the related bonds and are included in long-term debt. At June 30, 2017 and 2016, accumulated amortization totaled \$37,036 and \$77,832, respectively.

**Funding Sources**

Revenues from services to clients include amounts reimbursable by various funding sources, including Medicaid (MaineCare) and the State of Maine. Fees for services are recorded as revenue at the time the service is provided. Amounts received for services provided to clients covered under the programs are generally based upon the costs of the services provided. These amounts fall into two separate funding methods:

- Certain cost recovery programs' settlements are established via audits conducted by the funding sources. Under this procedure, rates are adjusted retrospectively for any historical surpluses or deficits.
- Fees for other programs are determined under rate negotiations or are fixed by MaineCare through its rules.

The State of Maine enacted legislation establishing a service provider tax. As a result, Spurwink Services, Inc. was subjected to and recorded \$1,276,732 and \$1,174,936 of service provider taxes in 2017 and 2016, respectively. This tax is offset through increased reimbursement under the related programs.

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

A portion of revenue includes amounts related to federal and state grants. Revenue recognized under these grants for services under ongoing awards is recognized based upon allowable expenses incurred to date not to exceed available funding. For awards which were completed during the year, revenue is recognized based upon allowable expenditures incurred up to the award total. Any adjustments in estimated settlement amounts under state and federal awards are recognized when final settlements are determined. Revenue received prior to providing services is deferred until the related services are rendered.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on historical account write-off patterns by payor. 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 accounts receivable.

**Investments**

Investments are presented in the financial statements at fair value. Investments in general are exposed to various risks, such as interest rates, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

**Non-Program Expenses**

Included in non-program expenses are amounts which are disallowed for purposes of determining program reimbursement rates by the applicable funding sources.

**Functional Allocation of Expenses**

The costs of providing programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Accrued Earned Time**

Spurwink Services, Inc. employees are vested in earned vacation, personal time, and sick pay (earned time). All pay for earned time is computed at the employee's current base pay (excluding overtime, shift and other premiums), and is accrued as earned. The liability for unused earned time is included in accrued wages and related expenses in the statements of financial position.

## **SPURWINK SERVICES, INC.**

### **Notes to Financial Statements**

**June 30, 2017 and 2016**

#### **403(b) Plan**

Spurwink Services, Inc. sponsors a tax sheltered 403(b) plan which covers all employees who have met the eligibility requirements. Spurwink Services, Inc.'s matching contributions totaled \$615,689 and \$523,800 in 2017 and 2016, respectively.

#### **457(b) Plan**

Spurwink Services, Inc. has entered into three 457(b) deferred compensation plans which cover highly compensated employees of the Organization. The amount contributed to the plans in 2017 and 2016 was \$37,500 and \$46,500, respectively.

#### **Postretirement Benefits**

Spurwink Services, Inc. sponsors a defined benefit postretirement plan providing health insurance for eligible employees. The plan is not prefunded and Spurwink Services, Inc. recognizes the cost for these benefits on the accrual method as prescribed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 715, *Compensation - Retirement Benefits*. Spurwink Services, Inc. also sponsors a defined benefit pension plan. Effective January 1, 2010, the defined benefit pension plan was amended to exclude new participants; current participants were not affected by the amendment. Effective July 1, 2014, the accrued benefits of all participants in the pension plan were frozen.

#### **New Accounting Pronouncement and Reclassifications**

Effective for the year ended June 30, 2017, the Organization adopted and retrospectively applied the provisions of FASB Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The ASU is limited to simplifying the presentation of debt issuance costs, and the recognition and measurement guidance for debt issuance costs is not affected by the ASU. As a result of the adoption, the Organization reclassified unamortized debt issuance costs in the amount of \$88,017 from debt issuance costs costs in the accompanying balance sheet as of June 30, 2016, and presented the amount as a reduction in long-term debt, as required by the ASU. The adoption had no material effect on the Organization's statements of activities cash flows for the year ended June 30, 2016.

#### **Charity Care**

Spurwink Services, Inc. provides care to clients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Spurwink Services, Inc. does not pursue collection of amounts determined to qualify as charity care, these are not reported as revenue. The amount of charity care charges forgone for services and supplies furnished under Spurwink Services, Inc.'s charity care policy was \$12,097 and \$48,015 in 2017 and 2016, respectively.

# SPURWINK SERVICES, INC.

## Notes to Financial Statements

June 30, 2017 and 2016

### **Subsequent Events**

The Organization has considered transactions or events occurring through November 1, 2017, which was the date the financial statements were available to be issued. The Organization has not evaluated subsequent events after that date for inclusion in the financial statements.

On September 29, 2017, Spurwink Services entered into a purchase and sale agreement to sell certain buildings for approximately \$1.25 million. The selling price exceeds the net book value by approximately \$275,000. The resulting gain will be recognized during the year ending June 30, 2018.

### **2. Fair Value Measurement**

FASB ASC Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

Assets measured at fair value on a recurring basis are summarized below.

	Fair Value Measurements at June 30, 2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ <u>574,325</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>574,325</u>
Annuity receivable	\$ <u>1,156,181</u>	\$ <u>-</u>	\$ <u>1,156,181</u>	\$ <u>-</u>
Investments - deferred compensation:				
Mutual funds	\$ <u>223,529</u>	\$ <u>223,529</u>	\$ <u>-</u>	\$ <u>-</u>
Investments - held by defined benefit pension plan (Note 6):				
Cash and cash equivalents	\$ <u>1,922,411</u>	\$ <u>1,922,411</u>	\$ <u>-</u>	\$ <u>-</u>
Mutual funds				
Equity mutual funds	3,117,781	3,117,781	-	-
Balanced mutual funds	1,303,921	1,303,921	-	-
International equity funds	1,853,125	1,853,125	-	-
Exchange traded funds	<u>9,884,760</u>	<u>9,884,760</u>	-	-
Total mutual funds	<u>16,159,587</u>	<u>16,159,587</u>	-	-
Corporate bonds	4,518,465	-	4,518,465	-
U.S. government securities	<u>504,910</u>	<u>504,910</u>	-	-
Total	\$ <u>23,105,373</u>	\$ <u>18,586,908</u>	\$ <u>4,518,465</u>	\$ <u>-</u>

	Fair Value Measurements at June 30, 2016			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	\$ <u>510,306</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>510,306</u>
Annuity receivable	\$ <u>1,470,428</u>	\$ <u>-</u>	\$ <u>1,470,428</u>	\$ <u>-</u>
Investments - deferred compensation:				
Mutual funds	\$ <u>174,453</u>	\$ <u>174,453</u>	\$ <u>-</u>	\$ <u>-</u>
Investments - held by defined benefit pension plan (Note 6):				
Cash and cash equivalents	\$ <u>1,881,908</u>	\$ <u>1,881,908</u>	\$ <u>-</u>	\$ <u>-</u>
Mutual funds				
Equity mutual funds	4,264,903	4,264,903	-	-
Balanced mutual funds	1,214,669	1,214,669	-	-
Exchange traded funds	<u>8,615,078</u>	<u>8,615,078</u>	-	-
Total mutual funds	<u>14,094,650</u>	<u>14,094,650</u>	-	-
Corporate bonds	4,605,746	-	4,605,746	-
U.S. government securities	<u>201,067</u>	<u>201,067</u>	-	-
Total	\$ <u>20,783,371</u>	\$ <u>16,177,625</u>	\$ <u>4,605,746</u>	\$ <u>-</u>

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

Corporate bonds are valued using quoted market prices of similar assets. The annuity receivable is valued using the method described in Note 7.

Certain investments at June 30, 2017 and 2016 are held at the Maine Community Foundation (MCF) in a pooled investment portfolio and are valued at the Organization's proportionate share of the fair value of the assets in the portfolio. Spurwink Services, Inc.'s assets are not separately identifiable and as such are not readily transferable and are classified as Level 3. MCF's portfolio is comprised primarily of marketable equities, fixed income funds, and real asset funds.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Balance, July 1, 2015	\$ 522,172
Change in value of investments	<u>(11,866)</u>
Balance, June 30, 2016	510,306
Change in value of investments	<u>64,019</u>
Balance, June 30, 2017	<u>\$ 574,325</u>

**3. Assets Whose Use is Limited**

Assets whose use is limited are comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
In accordance with the terms of the MHHEFA revenue bonds referred to in Note 4, Spurwink Services, Inc. is required to maintain debt service funds with a trustee (trustee held funds). The debt service funds represent amounts which have been deposited, via monthly payment of principal and interest, with the trustee. The semi-annual bond interest payments and the annual bond principal payments are to be made from these funds as they become due. The debt service funds consist of cash and money market funds.	\$ 804,504	\$ 884,606
In accordance with the terms of a note payable for construction financing referred to in Note 4, Spurwink Services, Inc. received the full amount of the note in advance and it is held in escrow. As construction costs are incurred, the escrow balance is reduced and added to the outstanding balance of the note payable. The escrow account consists solely of cash.	742,632	-

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Spurwink Services, Inc. participates in a state unemployment insurance trust, which requires funds to be deposited in trust. These trust assets consist of a money market fund.	<b>606,283</b>	605,374
Board designated cash	<u>4,836</u>	<u>220,303</u>
	<b>2,158,255</b>	1,710,283
Less current portion	<u>804,504</u>	<u>884,606</u>
	<b><u>\$ 1,353,751</u></b>	<b><u>\$ 825,677</u></b>

**4. Long-Term Debt and Capital Leases**

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

	<u>2017</u>	<u>2016</u>
MHHEFA Revenue Bonds, Series 2007A, term bonds due July 1, 2016 with interest rates ranging from 4.0% to 5.0%. Repaid in 2017.	\$ -	\$ 88,500
MHHEFA Revenue Bonds, Series 2010B, term bonds due July 1, 2028 with interest rates ranging from 3.0% to 5.25%.	<b>977,959</b>	1,067,256
MHHEFA Revenue Bonds, Series 2014A, term bonds due July 1, 2024 with interest rates ranging from 3.0% to 5.0%.	<b>3,907,605</b>	4,575,379
Note payable, due in monthly payments of \$28,696, including interest at 3.52% through January 2021; collateralized by equipment.	<b>1,233,943</b>	-
Construction note payable, due in monthly installments of interest only at 3.03%, in the amount of \$6,493 through January 2019, at which time monthly payments of \$14,30, including interest, are due through January, 2024; collateralized by inventory, equipment and accounts receivable of the Organization. At June 30, 2017 there is \$1,428,735 available to draw under this note.	<b>2,571,265</b>	-
Note payable, due in monthly installments of interest only at one-month LIBOR plus 2.25% (3.28% at June 30, 2017) of \$4,366 through September 2017, at which time payments of \$7,809, including interest, are due through September 2042; collateralized by building and equipment.	<b>1,597,172</b>	-

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

Various notes payable, with interest rates ranging from 3.19% to 4.84%, in monthly installments ranging from \$1,677 to \$28,696 (including principal and interest), maturing between 2016 and 2031; collateralized by motor vehicles and equipment.	<b>310,546</b>	1,675,875
Capital lease agreements for vehicles with interest rates ranging from 8.02% to 8.38%, expiring in 2022.	<u><b>146,112</b></u>	<u>-</u>
	<b>10,744,602</b>	7,407,010
Less current portion of long-term debt	<b>1,198,536</b>	1,277,705
Less current portion of capital leases	<b>25,978</b>	-
Less unamortized debt issuance costs	<u><b>78,085</b></u>	<u>88,017</u>
Long-term debt and capital leases, excluding current portion	<u><b>\$ 9,442,003</b></u>	<u><b>\$ 6,041,288</b></u>

Maturities of long-term debt are as follows:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2018	\$ 1,198,536	\$ 37,695
2019	1,491,935	37,151
2020	1,318,082	37,151
2021	1,231,694	37,151
2022	1,187,648	30,420
Thereafter	<u>4,170,595</u>	<u>-</u>
Total	<u><b>\$ 10,598,490</b></u>	179,568
Less amounts representing interest		<u>33,456</u>
		<u><b>\$ 146,112</b></u>

The MHHEFA bonds are collateralized by a first mortgage on all applicable properties, related improvements and equipment, as well as the gross receipts of Spurwink Services, Inc.

The MHHEFA loan agreements call for the maintenance of a required minimum ratio of debt service coverage. Spurwink Services, Inc. is in compliance with this loan covenant for the year ended June 30, 2017.

# SPURWINK SERVICES, INC.

## Notes to Financial Statements

June 30, 2017 and 2016

Spurwink Services, Inc. is required to make monthly deposits of principal and interest in sufficient amounts to enable semi-annual interest payments and annual principal payments to be made when due.

Spurwink Services, Inc. has two line of credit agreements in place with a bank with a total borrowing capacity of \$6,000,000. These lines bear interest at variable rates based on prime, which was 4.25% at June 30, 2017, and a variation of the London Interbank Offered Rate, which was 3.22% at June 30, 2017. There was \$600,000 outstanding under these lines of credit at June 30, 2017; there were no amounts outstanding at June 30, 2016.

The Organization leases vehicles under capital leases as noted above. Assets held under capital leases included in property and equipment are as follows at June 30, 2017:

Vehicles, at cost	\$ 151,554
Less accumulated amortization	<u>5,442</u>
	<u>\$ 146,112</u>

### 5. Operating Leases

Spurwink Services, Inc. leases facilities under operating lease agreements expiring in various years through December 2022. Certain leases require the payment of property taxes in addition to a base rental fee. Certain leases also provide for the base rental fee to be increased annually, typically by between 2%-3%, as well as adjustment for changes in the lessors' debt service because of interest rate fluctuations. Spurwink Services, Inc. also leases several other facilities on a month-to-month, tenant-at-will basis. The rental charges for the years ended June 30, 2017 and 2016 were \$1,251,066 and \$1,215,272, respectively. The majority of the leases described include provisions which allow for a renewal of the lease at the option of Spurwink Services, Inc. Spurwink Services, Inc. intends to renew such leases as long as the programs, which are conducted at the leased facilities, continue to receive government funding.

The Organization entered into a lease agreement during 2014 that included an incentive payment. The lease incentive will reduce lease expense ratably over the term of the lease. The deferred lease incentive is \$93,486 and \$195,471 at June 30, 2017 and 2016, respectively. The lease incentive is included in other current liabilities and deferred lease incentive in the statements of financial position.

The following is a schedule of future minimum rental payments under the above noncancelable operating leases as of June 30, 2017:

2018	\$ 904,767
2019	342,455
2020	245,613
2021	138,751
2022	<u>81,450</u>
	<u>\$ 1,713,036</u>

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

**6. Retirement Plans**

Spurwink Services, Inc. participates in a defined benefit pension plan that covers substantially all its employees employed through December 31, 2009. Effective January 1, 2010, the plan was amended to exclude new participants. Effective July 1, 2014, the accrued benefits of all participants in the plan were frozen. The plan calls for benefits to be paid to eligible employees at retirement based upon amounts accumulated in their hypothetical accounts. Hypothetical account balances are based upon 4% of compensation, interest, and years of service. Contributions to the plan are made based upon amounts actuarially determined to sufficiently fund the plan.

The following tables set forth the funded status of the defined benefit plan and amounts recognized in the Organization's financial statements as of and for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Benefit obligation	\$ <b>24,909,752</b>	\$ 26,371,278
Fair value of plan assets	<u><b>23,105,373</b></u>	<u>20,783,371</u>
Funded status, accrued liability	<u><b>\$ (1,804,379)</b></u>	<u>\$ (5,587,907)</u>
Employer contributions	<u><b>\$ -</b></u>	<u>\$ 120,000</u>
Benefits paid	<u><b>\$ (444,705)</b></u>	<u>\$ (348,622)</u>
Net periodic pension cost	<u><b>\$ 467,191</b></u>	<u>\$ 124,397</u>
Estimated net loss expected to be amortized into pension expense over the next fiscal year	<u><b>\$ 394,239</b></u>	<u>\$ 1,066,472</u>

Plan assets are allocated as follows:

	<u>2017</u>	<u>2016</u>
Cash equivalents	<b>8.4 %</b>	9.1 %
Mutual funds	<b>70.0</b>	67.8
Fixed income	<u><b>21.6</b></u>	<u>23.1</u>
	<u><b>100.0 %</b></u>	<u>100.0 %</u>

The target allocation percentage for investments is 50%-70% equities and 30%-50% debt securities. The Plan trustee evaluates its target allocation periodically in relation to market performance and overall market conditions. The overall goal is to provide for adequate investment growth, along with contributions, to provide adequate funding to meet plan obligations on a current and projected basis.

The overall expected long-term rate of return is based upon achieved historical returns of a mix of stocks and bonds and expectations of future yields and market performance for such securities.

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

Weighted-average assumptions as of and for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
<u>Benefit cost</u>		
Discount rate	3.67 %	4.48 %
Expected return on plan assets	7.50	7.50
 <u>Benefit obligation</u>		
Discount rate	3.88 %	3.67 %

Expected benefits to be paid for the next ten years as of June 30, 2017 are as follows:

2018	\$	567,097
2019		606,067
2020		675,480
2021		743,998
2022		818,782
Aggregate for the next five years thereafter		4,741,153

No contributions are expected to be made in 2018.

Spurwink Services, Inc. has adopted the recognition provisions of FASB ASC Topic 715-20, *Defined Benefit Plans*, which requires that the funded status of defined postretirement plans be fully recognized in the statements of financial position. The adjustment to net assets at adoption represented the net unrecognized actuarial losses which were previously netted against the Plan's funded status in the Organization's statement of financial position pursuant to the provisions of FASB ASC Topic 715-30, *Defined Benefit Plans - Pensions*. These amounts are subsequently recognized as net periodic pension cost pursuant to the Organization's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of net assets. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in net assets upon adoption of ASC Topic 715-20.

Spurwink Services, Inc. also participates in a postretirement plan which provides health insurance coverage for two of its former executive directors. The following tables set forth information regarding the postretirement benefits based on measurement dates of June 30:

	<u>2017</u>	<u>2016</u>
Accumulated postretirement benefit obligation	\$ 276,851	\$ 315,847
Fair value of plan assets	-	-
Funded status	<u>\$ (276,851)</u>	<u>\$ (315,847)</u>

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Accrued benefit liability recognized in the statement of financial position:		
Current portion	\$ (16,957)	\$ (21,060)
Long-term portion	<u>(259,894)</u>	<u>(294,787)</u>
	<u>\$ (276,851)</u>	<u>\$ (315,847)</u>

Weighted-average assumptions as of and for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
<u>Benefit cost</u>		
Discount rate	2.87 %	3.79 %
<u>Benefit obligation</u>		
Discount rate	2.65 %	2.87 %

Activities for the year consist of:

Benefit cost	\$ <u>7,206</u>	\$ <u>34,419</u>
Employer contributions and benefits paid	\$ <u>22,637</u>	\$ <u>21,060</u>

Expected benefits to be paid for the next ten years as of June 30, 2017 are as follows:

2018	\$ 15,522
2019	16,032
2020	16,502
2021	16,921
2022	17,280
Aggregate for the next five years thereafter	89,168

Contributions expected to be made in 2018 are \$15,522.

An assumed health cost increase of 5.0% was used for 2018 to measure the expected cost of benefits covered by the plan for the next year with an assumed cost trend that decreases to 4.5% in 2019 and remains at that level. A one percentage point increase in the assumed health care cost trend for 2017 would increase the benefit cost by \$832 and the benefit obligation by \$28,981. A one percentage point decrease in the assumed health care cost trend for 2017 would decrease the benefit cost by \$733 and the benefit obligation by \$25,530.

**SPURWINK SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2017 and 2016**

**7. Deferred Compensation Payable**

Spurwink Services, Inc. has incurred liabilities relating to salary continuation agreements with two of its former executive directors. Under the terms of the agreements, they are entitled to receive, for their lifetimes, an annual amount as a supplement to their other retirement benefits, paid on a monthly basis.

The present value of the estimated liabilities has been based on a discount rate of 2.61% and 2.81% at June 30, 2017 and 2016, respectively. Spurwink Services, Inc. recognized a benefit of \$(100,438) and an expense of \$202,830 for the years ended June 30, 2017 and 2016, respectively, under these arrangements.

In conjunction with the salary continuation agreements, Spurwink Services Inc. had established a trust to assist in providing such benefits (a "Rabbi Trust"). In July 2014, the Organization liquidated the Rabbi Trust and purchased a single premium group annuity from Pacific Life & Annuity Company (Pacific Life) to pay the deferred compensation. Under this agreement, Pacific Life will make monthly payments to Spurwink, who will pay the remaining former executive. Pacific Life will continue to make annuity payments for the lifetime of the executive. At June 30, 2017 and 2016, the present value of amounts anticipated to be received from the annuity based on actuarial assumptions regarding life expectedness and market interest rates are \$1,156,181 and \$1,470,428, respectively.

The estimated total amounts to be paid to the individual as of June 30, 2017 for deferred compensation benefits over the next five years are as follows:

2018	\$	87,750
2019		87,750
2020		87,750
2021		87,750
2022		87,750

**8. Concentration of Credit Risk**

Fees from State of Maine government agencies comprised approximately 76% and 75% of Spurwink Services, Inc.'s unrestricted revenues, gains and other support for the years ended June 30, 2017 and 2016, respectively. Approximately 7% for the years ended June 30, 2017 and 2016 is from local school districts who receive funding from State of Maine government agencies. Accordingly, a substantial portion of its accounts receivable relates to fees from these agencies.

Spurwink Services, Inc. is also subject to concentrations of credit risk in conjunction with its cash and trustee held funds. At June 30, 2017, Spurwink Services, Inc. had cash on deposit with banks of \$1,249,275. Of this amount, \$500,000 was federally insured and \$749,275 was collateralized by repurchase agreements. Additionally, trustee held funds totaling \$804,504 as of June 30, 2017 are invested in the First American Treasury Obligation Fund. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk with respect to these accounts.

# SPURWINK SERVICES, INC.

## Notes to Financial Statements

June 30, 2017 and 2016

### 9. Commitments and Contingencies

#### Malpractice Contingencies

Spurwink Services, Inc. insures its professional malpractice risks on a claims-made basis. At June 30, 2017, there were no known malpractice claims nor incidents outstanding which were expected to exceed the insurance policy limits. Spurwink Services, Inc. intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

#### Self-Insurance Contingency

Spurwink Services, Inc. is self-insured for unemployment benefits. Quarterly deposits are made to a trust to cover claims as incurred. No liability for unemployment benefits has been recorded as management does not expect any amounts are owed beyond the amounts deposited to the trust as of June 30, 2017 or 2016.

Spurwink Services, Inc. is self-insured for general liability insurance. Monthly deposits are made to a trust to cover claims as incurred. No liability for general liability has been recorded as management does not expect any amounts are owed beyond the amounts deposited to the trust as of June 30, 2017 or 2016.

Spurwink Services, Inc. is self-insured for workers' compensation benefits. Monthly deposits are made to a trust to cover claims as incurred. No liability for workers' compensation has been recorded as management does not expect any amounts are owed beyond the amounts deposited to the trust as of June 30, 2017 or 2016.

#### Asset Retirement Obligation

The State of Maine requires special disposal procedures relating to building materials containing asbestos. Spurwink Services, Inc.'s buildings contain some encapsulated asbestos, but a liability has not been recognized. This is because there are no current plans to renovate or dispose of the buildings that would require the removal of the asbestos; accordingly, the liability has an indeterminate date and its fair value cannot be reasonably estimated.

#### Projects in Progress

Spurwink Services, Inc. is currently in the process consolidating its many campus locations into fewer, larger facilities to house its residential programs. As of June 30, 2017 there were seven ongoing construction projects related to this initiative. These projects have a total estimated cost of \$4.8 million and are all expected to be completed in fiscal year 2018.

## **SUPPLEMENTARY INFORMATION**

## SPURWINK SERVICES, INC.

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifier/Contract Number</u>	<u>Federal Expenditures</u>
Direct			
U.S. Department of Education			
Investing in Innovation (I3) Fund	84.411	U411B130021	\$ 2,815,952
Investing in Innovation (I3) Fund	84.411	U411A160001	<u>387,616</u>
Total CFDA 84.411			<u>3,203,568</u>
Passed through Maine Department of Education			
Special Education - Grants to States	84.027	20150818*679	<u>15,000</u>
Total U.S. Department of Education			<u>3,218,568</u>
Direct			
U.S. Department of Health and Human Services			
Positive Youth Development	93.885	9920140027	58,873
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	CT 03A 20160523*3634	305,560
Passed through Maine Department of Education			
ACL Assistive Technology	93.464	20160818*552	<u>158,400</u>
Total U.S. Department of Health and Human Services			<u>522,833</u>
Total expenditures of federal awards			<u>\$ 3,741,401</u>

**SPURWINK SERVICES, INC.**

**Notes to Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2017**

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Spurwink Services, Inc. (the Organization). The information in this schedule is presented in accordance with Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**2. Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in Office of Management and Budget Circular A-122, *Cost Principles for Nonprofit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The Organization has not elected to use the 10% de minimis indirect cost rate.

Schedule of Expenditures of Department Agreements

Year Ended June 30, 2017

Department Office	Agreement Number	Agreement Amount	Agreement Period	Agreement Service	Agreement Status	Federal Expenses	State Expenses	Total Department Expenses
<b>DHHS:</b>								
OAMHS	MH1-17-4006	\$ 50,612	07/01/2016-06/30/2017	Medication Management	Final	\$ -	\$ 23,981	<b>23,981</b>
OAMHS	MH1-17-838	50,612	07/01/2016-06/30/2018	Mental Health/ACT	Interim	-	22,397	<b>22,397</b>
CBH	CBH-16-7009	13,286	10/01/2015-09/30/2016	TIP	Final	-	13,286	<b>13,286</b>
CBH	CBH-17-7009	25,000	10/01/2016-09/30/2017	TIP	Interim	-	20,517	<b>20,517</b>
OADS	ADS-17-2581	61,032	07/01/2016-06/30/2017	OACPD - Rental Subsidy	Final	-	60,766	<b>60,766</b>
CFS	CFS-17-8025	45,949	07/01/2016-06/30/2017	Child Abuse Program	Final	-	45,949	<b>45,949</b>
CFS	* 1072A	2,469,133	01/01/1998-12/31/2019	Group Foster Care	Interim	-	2,469,133	<b>2,469,133</b>
<b>Subtotal (Direct)</b>						-	2,656,029	<b>2,656,029</b>
<b>DHHS Indirect:</b>								
N/A						-	-	-
<b>Subtotal (Indirect)</b>						-	-	-
<b>Total</b>						<b>\$ -</b>	<b>\$ 2,656,029</b>	<b>\$ 2,656,029</b>

\* Department agreement tested

**SPURWINK SERVICES, INC.**

**Notes to Schedule of Expenditures of Department Agreements**

**Year Ended June 30, 2017**

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying schedule of expenditures of Department agreements (the Schedule) includes the Department agreement activity of Spurwink Services, Inc. under programs of the Department for the year ended June 30, 2017. The information in the Schedule is presented in accordance with requirements of *Maine Uniform Accounting and Auditing Practices for Community Agencies* (MAAP). Because the Schedule presents only a selected portion of the operations of Spurwink Services, Inc., it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the Organization.

**Basis of Settlement**

Grants which are cost settled include an estimated settlement of state funds based upon the available grant revenue and other revenue based upon allowable costs.

**2. Summary of Significant Accounting Policies for State Agreement Expenditures**

Expenditures reported on the Schedule consist of direct and indirect costs which are recognized as incurred using the accrual method of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, or 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*, and MAAP. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

**3. Other Disclosures**

Is your Agency required to have a federal Uniform Guidance audit?      X   yes         no

Percentage of major agreements tested in relation to total Department expenses: 93%



**INDEPENDENT AUDITOR'S 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**

The Board of Directors  
Spurwink Services, Inc.

We have audited, in accordance with U.S generally accepted auditing standards 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 Spurwink Services, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Spurwink Services, Inc.'s internal control over financial reporting (internal control) to determine the auditing 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 Spurwink Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Spurwink Services, Inc.'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
November 1, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Directors  
Spurwink Services, Inc.

**Report on Compliance for the Major Federal Program**

We have audited Spurwink Services, Inc.'s compliance with the types of compliance requirements described in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2017. Spurwink Services, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs related to federal awards.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Spurwink Services, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Spurwink Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on the Major Federal Program***

In our opinion, Spurwink Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

## Report on Internal Control Over Compliance

Management of Spurwink Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Spurwink Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
November 1, 2017

SPURWINK SERVICES, INC.

Schedule of Findings and Questioned Costs Related to Federal Awards

Year Ended June 30, 2017

**Section I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:

Unmodified

Material weakness(es) identified?

Yes  No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes  None reported

Noncompliance material to financial statements noted?

Yes  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified:

Yes  No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes  None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

Yes  No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.411

Investing in Innovation (I3) Fund

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes  No

**Section II. Financial Statement Findings**

None.

**Section III. Federal Award Findings and Questioned Costs**

None.

**SPURWINK SERVICES, INC.**

**Summary Schedule of Prior Year Audit Findings Related to Federal Awards**

**Related to Federal Awards**

**June 30, 2017**

**Section I. Prior Year Findings Relating to the Financial Statements Which are Required to be Reported In Accordance with *Government Auditing Standards***

**Finding 2016-001**

Condition Found

An invoice for \$188,804 incurred for a multi-year grant came in several months after the related services had been provided. As a result, the Organization recorded the invoice during the year ended June 30, 2016 when the expenses related to the year ended June 30, 2015.

One instance of noncompliance in a sample of 40 transactions tested.

Prior Year Recommendation

We recommend management implement month-end, quarter-end, and year-end expense cut-off procedures to help ensure accruals are properly made for services provided but not yet invoiced.

Status

Resolved.

**Section II. Prior Year Audit Findings for the Major Federal Program**

See Finding 2016-001.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON THE MAJOR DEPARTMENT AGREEMENT AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH MAINE UNIFORM ACCOUNTING  
AND AUDITING PRACTICES FOR COMMUNITY AGENCIES**

The Board of Directors  
Spurwink Services, Inc.

**Report on Compliance for the Major Department Agreement**

We have audited Spurwink Services, Inc.'s compliance with the types of compliance requirements described in the *Maine Uniform Accounting and Auditing Practices for Community Agencies* (MAAP), and with the requirements identified in the Contract Compliance Rider(s) of the Agency's agreements with the Maine Department of Health and Human Services (the Department) that could have a direct and material effect on Spurwink Services, Inc.'s major Department agreement for the year ended June 30, 2017. Spurwink Services, Inc.'s major Department agreement is identified in the summary of auditor's results section in the accompanying schedule of findings and questioned costs related to Department agreements.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Spurwink Services, Inc.'s major Department agreement based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and MAAP. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major Department agreement occurred. An audit includes examining, on a test basis, evidence about Spurwink Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Department agreement. However, our audit does not provide a legal determination of Spurwink Services, Inc.'s compliance.

***Opinion on the Major Department Agreement***

In our opinion, Spurwink Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Department agreement for the year ended June 30, 2017.

## Report on Internal Control Over Compliance

Management of Spurwink Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Spurwink Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major Department agreement to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major Department agreement and to test and report on internal control over compliance in accordance with MAAP, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Spurwink Services, Inc.'s internal control over compliance.

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

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

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

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
November 1, 2017

SPURWINK SERVICES, INC.

Schedule of Findings and Questioned Costs Related to Department Agreements

Year Ended June 30, 2017

**Section I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Department Agreements**

Internal control over programs tested:

Material weakness(es) identified:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Type of auditor's report issued on compliance for programs tested: Unmodified

Any audit findings disclosed that are required to be reported in accordance with MAAP regulations?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
--	------------------------------	--

Identification of programs tested:

1072A            Group Foster Care

**Section II. Financial Statement Findings**

None.

**Section III. Department Agreement Findings and Questioned Costs**

None.

**SPURWINK SERVICES, INC.**

**Summary Schedule of Prior Year Findings and Questioned Costs  
Related to Department Agreements**

**June 30, 2017**

**Section I. Financial Statement Findings**

See Finding 2016-001 reported in the summary schedule of prior year findings related to federal awards.

**Section II. Department Agreement Findings and Questioned Costs**

None.