



# SPURWINK

**FINANCIAL STATEMENTS**

and

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

**June 30, 2018 and 2017**

**With Independent Auditor's Report**

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Year Ended June 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

The Boards of Directors  
Spurwink Services, Inc. and FOR Developmental Resources

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

We have audited the accompanying consolidated financial statements of Spurwink Services, Inc. and FOR Developmental Resources, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 audit 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 consolidated 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 consolidated 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 consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Spurwink Services, Inc. and FOR Developmental Resources as of June 30, 2018 and 2017, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**Other Matters**

*Prior Period Adjustment*

As discussed in Note 10, the consolidated financial statements of Spurwink Services, Inc. as of and for the year ended June 30, 2017 have been restated. Our opinion is not modified with respect to this matter.

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Schedules 1 and 2 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of activities and cash flows of the individual entities and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards (Schedule 3) 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*, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of Department agreements (Schedule 4) 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 December 18, 2018 on our consideration of Spurwink Services, Inc. and FOR Developmental Resources' 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 Spurwink Services, Inc. and FOR Developmental Resources' 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. and FOR Developmental Resources' internal control over financial reporting and compliance.

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
December 18, 2018

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Consolidated Statements of Financial Position**

**June 30, 2018 and 2017**

**ASSETS**

|   | <u>2018</u>          | <u>Restated<br/>2017</u> |
|---|----------------------|--------------------------|
| Current assets  |                      |                          |
| Cash  | \$ 919,389           | \$ 138,513               |
| Accounts receivable, net of allowance for doubtful<br>accounts of approximately \$3,669,000 and<br>\$2,265,000 in 2018 and 2017, respectively | 9,057,698            | 6,487,966                |
| Assets whose use is limited, current portion  | 907,919              | 804,504                  |
| Annuity receivable, current portion   | 87,750               | 87,750                   |
| Prepaid expenses and other current assets   | <u>1,700,060</u>     | <u>1,390,243</u>         |
| Total current assets  | <u>12,672,816</u>    | <u>8,908,976</u>         |
| Property and equipment  |                      |                          |
| Land and buildings  | 28,261,888           | 18,221,115               |
| Equipment   | 3,538,827            | 2,779,178                |
| Automobiles   | 2,656,212            | 2,413,694                |
| Leasehold improvements  | 2,026,768            | 1,768,667                |
| Projects in progress  | <u>2,703,538</u>     | <u>5,008,380</u>         |
|   | 39,187,233           | 30,191,034               |
| Less accumulated depreciation and amortization  | <u>15,120,654</u>    | <u>12,668,203</u>        |
| Net property and equipment  | <u>24,066,579</u>    | <u>17,522,831</u>        |
| Other assets  |                      |                          |
| Pension asset   | 446,078              | -                        |
| Investments   | 616,107              | 574,325                  |
| Annuity receivable, net of amount required to meet<br>current obligations   | 915,203              | 1,068,431                |
| Deferred compensation plan  | 258,563              | 223,529                  |
| Deposits  | 141,461              | 132,224                  |
| Assets whose use is limited, long-term portion  | <u>775,547</u>       | <u>2,081,584</u>         |
| Total other assets  | <u>3,152,959</u>     | <u>4,080,093</u>         |
| Total assets  | <u>\$ 39,892,354</u> | <u>\$ 30,511,900</u>     |

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

## LIABILITIES AND NET ASSETS

|   | <u>2018</u>          | Restated<br><u>2017</u> |
|---|----------------------|-------------------------|
| Current liabilities   |                      |                         |
| Line of credit  | \$ -                 | \$ 600,000              |
| Accounts payable and accrued liabilities                                      | 3,080,917            | 2,132,844               |
| Accrued wages and related expenses  | 2,094,093            | 1,625,661               |
| Program settlements payable   | 160,285              | -                       |
| Current portion of long-term debt   | 1,441,706            | 1,198,536               |
| Current portion of capital leases   | 81,954               | 25,978                  |
| Deferred revenue  | 72,291               | 122,057                 |
| Other current liabilities   | <u>130,201</u>       | <u>203,893</u>          |
| Total current liabilities   | <u>7,061,447</u>     | <u>5,908,969</u>        |
| Long-term liabilities   |                      |                         |
| Long-term debt, net of current portion and unamortized debt<br>issuance costs | 12,002,881           | 9,321,869               |
| Deferred compensation payable, net of current portion                         | 1,173,766            | 1,291,960               |
| Postretirement benefits, net of current portion                               | 196,137              | 259,894                 |
| Pension liability   | -                    | 1,804,379               |
| Capital leases, net of current portion  | <u>296,998</u>       | <u>120,134</u>          |
| Total long-term liabilities   | <u>13,669,782</u>    | <u>12,798,236</u>       |
| Total liabilities   | <u>20,731,229</u>    | <u>18,707,205</u>       |
| Net assets  |                      |                         |
| Unrestricted  | 19,104,467           | 11,747,803              |
| Temporarily restricted  | 28,047               | 28,281                  |
| Permanently restricted  | <u>28,611</u>        | <u>28,611</u>           |
| Total net assets  | <u>19,161,125</u>    | <u>11,804,695</u>       |
| Total liabilities and net assets  | <u>\$ 39,892,354</u> | <u>\$ 30,511,900</u>    |

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Consolidated Statements of Activities**

**Years Ended June 30, 2018 and 2017**

|  | <u>2018</u>          | Restated<br><u>2017</u> |
|--|----------------------|-------------------------|
| Unrestricted revenues, gains and other support   |                      |                         |
| Fees for services  |                      |                         |
| State of Maine agencies  | \$ 49,541,549        | \$ 42,425,194           |
| Maine school districts   | 3,146,903            | 3,849,090               |
| Third-party insurance  | 2,003,708            | 1,851,377               |
| Private pay  | 1,282,476            | 1,251,940               |
| Social Security  | 633,221              | 304,337                 |
| Medicare   | 357,315              | 334,539                 |
| Grants   | 7,439,858            | 4,469,286               |
| Contributions  | 775,924              | 803,011                 |
| Investment income  | 99,189               | 75,576                  |
| Gain on sale of property and equipment   | 283,883              | 47,157                  |
| Training revenue   | 324,546              | 355,977                 |
| Other revenue  | 478,651              | 316,657                 |
| Net assets released from restriction for operations  | 314                  | -                       |
| Total unrestricted revenues, gains and other support   | <u>66,367,537</u>    | <u>56,084,141</u>       |
| Unrestricted expenses  |                      |                         |
| Program services   | 57,273,513           | 48,370,541              |
| Management and general   | 7,025,597            | 7,079,134               |
| Non-program and fundraising  | 1,006,993            | 303,863                 |
| Total unrestricted expenses  | <u>65,306,103</u>    | <u>55,753,538</u>       |
| Change in unrestricted net assets, before non-operating gains  | 1,061,434            | 330,603                 |
| Non-operating gains  |                      |                         |
| Change in net assets to recognize funded status of pension plan  | 1,823,026            | 4,250,719               |
| Excess of assets acquired over liabilities assumed in acquisition of<br>Community Partners, Inc. and FOR Developmental Resources | 4,472,204            | -                       |
| Total non-operating gains  | <u>6,295,230</u>     | <u>4,250,719</u>        |
| Change in unrestricted net assets  | <u>7,356,664</u>     | <u>4,581,322</u>        |
| Temporarily restricted activities  |                      |                         |
| Contributions  | 80                   | 520                     |
| Net assets released from restriction for operations  | (314)                | -                       |
| Change in temporarily restricted net assets  | <u>(234)</u>         | <u>520</u>              |
| Change in net assets   | 7,356,430            | 4,581,842               |
| Net assets, beginning of period  | <u>11,804,695</u>    | <u>7,222,853</u>        |
| Net assets, end of period  | <u>\$ 19,161,125</u> | <u>\$ 11,804,695</u>    |

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

**SPURWINK SERVICES, INC. AND FOR DEVELOPMENTAL RESOURCES**

**Consolidated Statements of Functional Expenses**

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

|                             | <b>Year Ended June 30, 2018</b> |                               |                                    |                      | <b>Year ended June 30, 2017 (Restated)</b> |                               |                                    |                      |
|-----------------------------|---------------------------------|-------------------------------|------------------------------------|----------------------|--|-------------------------------|------------------------------------|----------------------|
|                             | <b>Program Services</b>         | <b>Management and General</b> | <b>Non-Program and Fundraising</b> | <b>Total</b>         | <b>Program Services</b>                    | <b>Management and General</b> | <b>Non-Program and Fundraising</b> | <b>Total</b>         |
| Salaries and wages          | \$ 28,766,996                   | \$ 2,987,680                  | \$ 160,031                         | \$ 31,914,707        | \$ 24,965,041                              | \$ 3,184,039                  | \$ 80,393                          | \$ 28,229,473        |
| Employee taxes and benefits | 5,236,022                       | 1,085,500                     | 277,474                            | 6,598,996            | 6,189,726                                  | 1,283,209                     | 10,033                             | 7,482,968            |
| Consultants                 | 11,463,389                      | 1,128,162                     | 74,655                             | 12,666,206           | 7,968,581                                  | 1,072,086                     | (40,277)                           | 9,000,390            |
| Supplies                    | 1,791,807                       | 351,322                       | 15,868                             | 2,158,997            | 1,761,688                                  | 262,325                       | 10,491                             | 2,034,504            |
| Service provider tax        | 1,681,835                       | -                             | -                                  | 1,681,835            | 1,276,732                                  | -                             | -                                  | 1,276,732            |
| Occupancy                   | 2,896,107                       | 409,581                       | 186,653                            | 3,492,341            | 2,483,450                                  | 482,416                       | 40,945                             | 3,006,811            |
| Utilities                   | 866,642                         | 383,421                       | 50,558                             | 1,300,621            | 745,353                                    | 386,536                       | 9,730                              | 1,141,619            |
| Depreciation                | 1,295,771                       | 262,727                       | 118,692                            | 1,677,190            | 990,407                                    | 199,535                       | 24,050                             | 1,213,992            |
| Interest                    | 386,999                         | 246,757                       | 10,405                             | 644,161              | 250,866                                    | 57,332                        | 55,499                             | 363,697              |
| Bad debt expense            | 2,188,138                       | -                             | -                                  | 2,188,138            | 1,071,761                                  | -                             | -                                  | 1,071,761            |
| Other                       | 699,807                         | 170,447                       | 112,657                            | 982,911              | 666,936                                    | 151,656                       | 112,999                            | 931,591              |
| <b>Total expenses</b>       | <b>\$ 57,273,513</b>            | <b>\$ 7,025,597</b>           | <b>\$ 1,006,993</b>                | <b>\$ 65,306,103</b> | <b>\$ 48,370,541</b>                       | <b>\$ 7,079,134</b>           | <b>\$ 303,863</b>                  | <b>\$ 55,753,538</b> |

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

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Consolidated Statements of Cash Flows**

**Years Ended June 30, 2018 and 2017**

|   | <u>2018</u>        | <u>Restated<br/>2017</u> |
|---|--------------------|--------------------------|
| Cash flows from operating activities  |                    |                          |
| Change in net assets  | \$ 7,356,430       | \$ 4,581,842             |
| Adjustments to reconcile change in net assets to net cash provided by operating activities                                    |                    |                          |
| Depreciation and amortization   | 1,687,121          | 1,223,923                |
| Accretion of bond premiums  | (69,963)           | (67,071)                 |
| Excess of assets acquired over liabilities assumed in acquisition of Community Partners, Inc. and FOR Developmental Resources | (4,472,204)        | -                        |
| Bad debt expense  | 2,188,138          | 1,071,761                |
| Change in funded status of pension plan   | (1,823,026)        | (4,250,719)              |
| Deferred compensation credit  | (36,480)           | (100,438)                |
| Realized and unrealized gain on investments   | (41,782)           | (64,019)                 |
| Gain on sale of property and equipment  | (283,883)          | (47,157)                 |
| Increase in   |                    |                          |
| Accounts receivable   | (3,672,932)        | (2,279,275)              |
| Prepaid expenses and other current assets   | 439,297            | (545,345)                |
| Annuity receivable  | 153,228            | 281,474                  |
| Deposits  | (9,237)            | (125,953)                |
| (Decrease) increase in  |                    |                          |
| Accounts payable and accrued liabilities  | 361,295            | 1,038,594                |
| Accrued wages and related expenses  | (140,291)          | (190,924)                |
| Program settlements payable   | 160,285            | -                        |
| Deferred revenue  | (49,766)           | (268,486)                |
| Other current liabilities   | (178,396)          | (6,812)                  |
| Deferred lease incentive  | -                  | (93,486)                 |
| Accrued postretirement benefits   | (63,757)           | (34,893)                 |
| Annuity payable and deferred compensation obligation  | (81,714)           | (93,807)                 |
| Pension liability, net  | (427,431)          | 467,191                  |
| Net cash provided by operating activities   | <u>994,932</u>     | <u>496,400</u>           |
| Cash flows from investing activities  |                    |                          |
| Purchases of property and equipment   | (5,029,271)        | (5,525,800)              |
| Proceeds from sale of property and equipment  | 1,529,662          | 154,675                  |
| Net (deposits to) withdrawals from trustee held funds   | (103,415)          | 80,102                   |
| Community Partners, Inc., and FOR Developmental Resources acquired cash balance   | 598,943            | -                        |
| Deposits and reinvested income in deferred compensation plans   | (35,034)           | (49,076)                 |
| Net change in assets whose use is limited   | 1,306,037          | (528,074)                |
| Net cash used by investing activities   | <u>(1,733,078)</u> | <u>(5,868,173)</u>       |
| Cash flows from financing activities  |                    |                          |
| Repayment of long-term debt   | (1,255,405)        | (1,259,205)              |
| Proceeds from issuance of long-term debt  | 3,439,611          | 4,517,667                |
| Net (repayments to) borrowings on line of credit  | (600,000)          | 600,000                  |
| Repayment of capital leases   | (65,184)           | (5,442)                  |
| Net cash provided by financing activities   | <u>1,519,022</u>   | <u>3,853,020</u>         |
| Net increase (decrease) in cash   | 780,876            | (1,518,753)              |
| Cash, beginning of period   | <u>138,513</u>     | <u>1,657,266</u>         |
| Cash, end of period   | <u>\$ 919,389</u>  | <u>\$ 138,513</u>        |

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

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Consolidated Statements of Cash Flows (Concluded)**

**Years Ended June 30, 2018 and 2017**

|   | <b><u>2018</u></b>       | Restated<br><b><u>2017</u></b> |
|---|--------------------------|--------------------------------|
| Supplemental disclosure of cash flow information: |                          |                                |
| Cash paid during the year for interest            | \$ <b><u>340,540</u></b> | \$ <b><u>441,934</u></b>       |

Noncash transactions:

During 2018 and 2017, the Organization financed the purchase of vehicles and equipment with capital lease agreements and commercial notes in the amount of \$298,024 and \$151,554, respectively. The leases payable, capital assets and commercial notes have been treated as noncash transactions.

As of June 30, 2018, capital purchases totaling \$337,602 were included in accounts payable. The liability and capital assets have been treated as noncash transactions.

See Note 1 for assets and liabilities acquired from CPI and FOR.

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

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

**Nature of Activities**

Spurwink Services, Inc. (Spurwink) is a private, not-for-profit entity established to promote the delivery of effective mental health services. FOR Developmental Resources (FOR) is a separate not-for-profit entity which constructed and operates a seven-unit residential facility for persons with intellectual and developmental disabilities in Westbrook, Maine.

Effective January 1, 2018, Community Partners, Inc. (CPI), a Maine not-for-profit corporation, merged with Spurwink. At the same time, Spurwink became the sole incorporating member of FOR. As a result of the merger, CPI ceased operations effective December 31, 2017. All assets, liabilities, and net assets of CPI as of December 31, 2017 were transferred to Spurwink, the surviving organization. FOR continues to operate its residential care facility as a separate organization subsequent to the acquisition.

**1. Summary of Significant Accounting Policies**

**Principles of Consolidation and Reporting Entity**

The 2018 consolidated financial statements include the accounts of Spurwink and FOR (collectively referred to as the Organization). Intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Appraisals were obtained for the fair value of the land and buildings of CPI and FOR as of December 31, 2017. The book value of liabilities and other assets approximates fair value. The fair value of each major class of consideration was as follows:

|   | <u>CPI</u>                 | <u>FOR</u>               | <u>Total</u>               |
|---|----------------------------|--------------------------|----------------------------|
| Cash and cash equivalents                 | \$ 740,260                 | \$ 20,294                | \$ 760,554                 |
| Accounts receivable, net                  | 1,067,958                  | (5,845)                  | 1,062,113                  |
| Estimated third-party payor estimates     | 414,190                    | -                        | 414,190                    |
| Prepaid expenses and other current assets | 213,194                    | 6,795                    | 219,989                    |
| Net property and equipment                | <u>3,416,590</u>           | <u>361,379</u>           | <u>3,777,969</u>           |
| <b>Total assets</b>                       | <b>\$ <u>5,852,192</u></b> | <b>\$ <u>382,623</u></b> | <b>\$ <u>6,234,815</u></b> |
| Accounts payable and accrued liabilities  | 959,601                    | 3,002                    | 962,603                    |
| Current portion of long-term debt         | 56,286                     | 14,426                   | 70,712                     |
| Long-term debt                            | <u>611,828</u>             | <u>117,468</u>           | <u>729,296</u>             |
| <b>Total liabilities</b>                  | <b>\$ <u>1,627,715</u></b> | <b>\$ <u>134,896</u></b> | <b>\$ <u>1,762,611</u></b> |

The excess of fair value of assets acquired over liabilities assumed totaled \$4,472,204 was recorded as a gain on acquisition in the 2018 consolidated statement of activities.

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

**Net Assets**

The net assets of the Organization are reported as follows:

Unrestricted Net Assets

Unrestricted net assets represent unrestricted resources over which the Organization retains full control to accomplish any of the Organization'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. The Organization 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 consolidated 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. AND  
FOR DEVELOPMENTAL RESOURCES**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

**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, 2018 and 2017, accumulated amortization totaled \$46,967 and \$37,036, 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, the Organization was subjected to and recorded \$1,681,835 and \$1,276,732 of service provider taxes in 2018 and 2017, respectively. This tax is offset through increased reimbursement under the related programs.

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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 consolidated 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 consolidated 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**

Employees of the Organization 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 consolidated statements of financial position.

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**403(b) Plan**

The Organization sponsors a tax sheltered 403(b) plan which covers all employees who have met the eligibility requirements. The Organization's matching contributions totaled \$352,402 and \$615,689 in 2018 and 2017, respectively. The Organization suspended its employer matching contributions effective December 31, 2017.

**457(b) Plan**

The Organization has entered into three 457(b) deferred compensation plans which cover highly compensated employees of the Organization. The amount contributed to the plans in 2018 and 2017 was \$36,000 and \$37,500, respectively.

**Postretirement Benefits**

The Organization sponsors a defined benefit postretirement plan providing health insurance for eligible employees. The plan is not prefunded and the Organization 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*. The Organization 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.

**Charity Care**

The Organization provides care to clients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization 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 the Organization's charity care policy was \$6,785 and \$12,097 in 2018 and 2017, respectively.

**Income Taxes**

Spurwink and FOR are nonprofit organizations pursuant to Internal Revenue Code (Code) Section 501(c)(3), whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax.

**Subsequent Events**

The Organization has considered transactions or events occurring through December 18, 2018, 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.

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**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.

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

|   | Fair Value Measurements at June 30, 2018 |                      |                     |                   |
|---|--|----------------------|---------------------|-------------------|
|   | Total                                    | Level 1              | Level 2             | Level 3           |
| Investments   | \$ <u>616,107</u>                        | \$ <u>-</u>          | \$ <u>-</u>         | \$ <u>616,107</u> |
| Annuity receivable  | \$ <u>1,002,953</u>                      | \$ <u>-</u>          | \$ <u>1,002,953</u> | \$ <u>-</u>       |
| Investments - deferred compensation:<br>Mutual funds            | \$ <u>258,563</u>                        | \$ <u>258,563</u>    | \$ <u>-</u>         | \$ <u>-</u>       |
| Investments - held by defined benefit<br>pension plan (Note 6): |  |                      |                     |                   |
| Cash and cash equivalents                                       | \$ <u>2,332,561</u>                      | \$ <u>2,332,561</u>  | \$ <u>-</u>         | \$ <u>-</u>       |
| Mutual funds  |  |                      |                     |                   |
| Equity mutual funds   | 3,203,329                                | 3,203,329            | -                   | -                 |
| Balanced mutual funds   | 1,032,742                                | 1,032,742            | -                   | -                 |
| International equity funds                                      | 2,027,287                                | 2,027,287            | -                   | -                 |
| Exchange traded funds   | <u>10,406,165</u>                        | <u>10,406,165</u>    | -                   | -                 |
| Total mutual funds  | <u>16,669,523</u>                        | <u>16,669,523</u>    | -                   | -                 |
| Corporate bonds   | 4,827,649                                | -                    | 4,827,649           | -                 |
| U.S. government securities                                      | <u>50,928</u>                            | <u>50,928</u>        | -                   | -                 |
| Total   | \$ <u>23,880,661</u>                     | \$ <u>19,053,012</u> | \$ <u>4,827,649</u> | \$ <u>-</u>       |

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|   | Fair Value Measurements at June 30, 2017 |                      |                     |                   |
|---|--|----------------------|---------------------|-------------------|
|   | Total                                    | Level 1              | Level 2             | Level 3           |
| 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:<br>Mutual funds            | \$ <u>223,529</u>                        | \$ <u>223,529</u>    | \$ <u>-</u>         | \$ <u>-</u>       |
| Investments - held by defined benefit<br>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>       |

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, 2018 and 2017 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. The Organization'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, 2016          | \$ 510,306        |
| Change in value of investments | <u>64,019</u>     |
| Balance, June 30, 2017         | 574,325           |
| Change in value of investments | <u>41,782</u>     |
| Balance, June 30, 2018         | <u>\$ 616,107</u> |

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**3. Assets Whose Use is Limited**

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

|  | <u>2018</u>              | <u>2017</u>                |
|--|--------------------------|----------------------------|
| In accordance with the terms of the MHHEFA revenue bonds referred to in Note 4, the Organization 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. | <b>\$ 907,919</b>        | \$ 804,504                 |
| In accordance with the terms of a note payable for construction financing referred to in Note 4, the Organization received the full amount of the note in advance and unexpended funds were held in escrow. As construction costs were incurred, the escrow balance was reduced and added to the outstanding balance of the note payable. The escrow account consisted solely of cash.   | -                        | 742,632                    |
| The Organization 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>615,693</b>           | 1,248,724                  |
| In accordance with the terms of its general liability insurance policy, the Organization maintains a separate cash account to fund general liability insurance claims. The account consists solely of cash.  | <b>131,807</b>           | 85,392                     |
| Board designated cash  | <u><b>28,047</b></u>     | <u>4,836</u>               |
|  | <b>1,683,466</b>         | 2,886,088                  |
| Less current portion   | <u><b>907,919</b></u>    | <u>804,504</u>             |
|  | <b>\$ <u>775,547</u></b> | <b>\$ <u>2,081,584</u></b> |

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

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

|  | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| <b><u>Spurwink</u></b>   |             |             |
| MHHEFA Revenue Bonds, Series 2010B, term bonds due July 1, 2028 with interest rates ranging from 3.0% to 5.25%.  | \$ 898,663  | \$ 977,959  |
| MHHEFA Revenue Bonds, Series 2014A, term bonds due July 1, 2024 with interest rates ranging from 3.0% to 5.0%.   | 3,254,830   | 3,907,605   |
| MHHEFA Revenue Bonds, Series 2013A, term bonds due July 1, 2019 with interest rates changing from 2.5% to 5.0%.  |             |             |
| Note payable, due in monthly payments of \$28,696, including interest at 3.52% through January 2021; collateralized by equipment.  | 889,587     | 1,233,943   |
| 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 \$14,300, including interest, are due through January 2024; collateralized by inventory, equipment and accounts receivable of the Organization. | 4,000,000   | 2,571,265   |
| Note payable, due in monthly installments of interest only at 4.45%, in the amount of \$7,417 through March 2019, at which time payments of \$45,562, including interest, are due through March 2023; collateralized by equipment and accounts receivable of the Organization.                                     | 2,000,000   | -           |
| Note payable, due in monthly installments of interest only at one-month LIBOR plus 2.25% (3.28% at June 30, 2018) 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.                              | 1,561,344   | 1,597,172   |
| 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 in 2022; collateralized by motor vehicles and equipment.   | 146,366     | 310,546     |

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|   | <u>2018</u>    | <u>2017</u> |
|---|----------------|-------------|
| Capital lease agreements for vehicles with interest rates ranging from 8.02% to 8.38%, expiring at various dates through 2022.  | <b>378,952</b> | 146,112     |
| 4.50% mortgage note, due in monthly installments of \$1,780, including interest, through November 2025; collateralized by land and a building at 42-44 Glenwood Avenue, Saco, Maine.  | <b>134,011</b> | -           |
| 4.50% mortgage note, due in monthly installments of \$1,097, including interest, through April 2026; collateralized by land and building at 46-48 Glenwood Avenue, Saco, Maine.   | <b>85,750</b>  | -           |
| 7.5% mortgage note to Maine Housing Authority, due in monthly installments of \$1,363, including interest, through January 2025; collateralized by property at 45 Heath Road, Saco, Maine.  | <b>83,968</b>  | -           |
| Mortgage note, due in monthly installments of \$1,637, including interest which is at 4.93% for five years then adjusted to the Federal Home Loan Bank rate plus 2.75%, thereafter subject to adjustment every five years, through June 2031; collateralized by all property at 26 Old Lisbon Road, Lewiston, Maine.  | <b>186,531</b> | -           |
| MHHEFA Revenue Bonds Series 2013A, including unamortized premium of \$8,676 at June 30, 2018, due in monthly installments of principal and interest to trustee sufficient to make annual interest payments and retire the bonds when due. Principal payments are due in annual installments through July 1, 2019, when the remaining balance is due. The bonds bear interest at rates ranging from 2.5% to 5.0% and are collateralized by certain assets. | <b>62,159</b>  | -           |
| 5.24% mortgage note, due in monthly installments of \$1,318, including interest, through September 2019, then changing to monthly installments of principal and interest based on a fixed interest rate of Federal Home Loan Bank of Boston rate at that date plus 2.78% through January 2025; collateralized by property at 45 Heath Road, Saco, Maine.  | <b>87,644</b>  | -           |

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| <b><u>FOR</u></b>   | <b><u>2018</u></b>          | <b><u>2017</u></b>         |
|---|-----------------------------|----------------------------|
| 9.25% U.S. Department of Housing and Urban Development mortgage note, due in monthly installments of \$2,179, including interest, through October 2024; collateralized by all property at 15 Woodmont Street, Westbrook, Maine. | <b><u>124,793</u></b>       | <b><u>-</u></b>            |
|   | <b>13,894,598</b>           | 10,744,602                 |
| Less current portion of long-term debt  | <b>1,441,706</b>            | 1,198,536                  |
| Less current portion of capital leases  | <b>81,954</b>               | 25,978                     |
| Less unamortized debt issuance costs  | <b><u>71,059</u></b>        | <b><u>78,085</u></b>       |
| Long-term debt and capital leases, excluding current portion  | <b><u>\$ 12,299,879</u></b> | <b><u>\$ 9,442,003</u></b> |

Maturities of long-term debt are as follows:

|                                    | Long-Term<br>Debt<br>(Excluding<br>Capital<br>Lease<br>Obligations) | Capital<br>Lease<br>Obligations |
|------------------------------------|---|---------------------------------|
| 2019                               | \$ 1,441,706  | \$ 99,843                       |
| 2020                               | 1,376,497   | 104,951                         |
| 2021                               | 1,277,830   | 107,749                         |
| 2022                               | 1,175,871   | 102,539                         |
| 2023                               | 462,590   | 17,424                          |
| Thereafter                         | <b><u>7,781,152</u></b>   | <b><u>-</u></b>                 |
| Total                              | <b><u>\$ 13,515,646</u></b>   | 432,506                         |
| Less amounts representing interest |   | <b><u>53,554</u></b>            |
|                                    |   | <b><u>\$ 378,952</u></b>        |

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

The MHHEFA loan agreements call for the maintenance of a required minimum ratio of debt service coverage. The Organization is in compliance with this loan covenant for the year ended June 30, 2018.

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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 on the MHHEFA bonds to be made when due.

Spurwink Services, Inc. has available a line of credit agreement with a bank with a total borrowing capacity of \$5,500,000. The line bears interest at a variable rate based on prime, which was 5.00% at June 30, 2018. There were no amounts outstanding under the line of credit at June 30, 2018 and there was \$600,000 outstanding under the line of credit at June 30, 2017.

Spurwink Services, Inc. has available a \$725,508 irrevocable standby letter of credit with Key Bank, which renews annually and serves as collateral for a direct reimbursement agreement with the State of Maine for unemployment benefits. There was no outstanding balance on this letter of credit at June 30, 2018.

The Organization leases vehicles under capital leases as noted above. Assets held under capital leases included in net property and equipment are as follows at June 30, 2018:

|                               |                   |
|-------------------------------|-------------------|
| Vehicles, at cost             | \$ 449,578        |
| Less accumulated amortization | <u>70,626</u>     |
|                               | <u>\$ 378,952</u> |

**5. Operating Leases**

The Organization 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. The Organization also leases several other facilities on a month-to-month, tenant-at-will basis. The rental charges for the years ended June 30, 2018 and 2017 were \$1,438,146 and \$1,251,066, respectively. The majority of the leases described include provisions which allow for a renewal of the lease at the option of the Organization. The Organization 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 expired during 2018 and was \$93,486 at June 30, 2017. The lease incentive is included in other current liabilities and deferred lease incentive in the 2017 consolidated statement of financial position.

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The following is a schedule of future minimum rental payments under the above noncancelable operating leases as of June 30, 2018:

|      |                     |
|------|---------------------|
| 2019 | \$ 1,066,847        |
| 2020 | 561,986             |
| 2021 | 344,819             |
| 2022 | 143,028             |
| 2023 | <u>28,423</u>       |
|      | <u>\$ 2,145,103</u> |

**6. Retirement Plans**

The Organization 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>2018</u>              | <u>2017</u>           |
|--|--------------------------|-----------------------|
| Benefit obligation   | \$ <b>23,434,583</b>     | \$ 24,909,752         |
| Fair value of plan assets  | <u>23,880,661</u>        | <u>23,105,373</u>     |
| Funded status, asset (accrued liability)   | <u>\$ <b>446,078</b></u> | <u>\$ (1,804,379)</u> |
| Employer contributions   | <u>\$ -</u>              | <u>\$ -</u>           |
| Benefits paid  | <u>\$ (870,961)</u>      | <u>\$ (444,705)</u>   |
| Net periodic pension (credit) cost   | <u>\$ (427,431)</u>      | <u>\$ 467,191</u>     |
| Estimated net loss expected to be amortized into pension expense over the next fiscal year | <u>\$ <b>109,806</b></u> | <u>\$ 394,239</u>     |

Plan assets are allocated as follows:

|                  | <u>2018</u>         | <u>2017</u>  |
|------------------|---------------------|--------------|
| Cash equivalents | <b>10 %</b>         | 8 %          |
| Mutual funds     | <b>70</b>           | 70           |
| Fixed income     | <u><b>20</b></u>    | <u>22</u>    |
|                  | <u><b>100 %</b></u> | <u>100 %</u> |

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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.

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

|                                | <u><b>2018</b></u> | <u><b>2017</b></u> |
|--------------------------------|--------------------|--------------------|
| <u>Benefit cost</u>            |                    |                    |
| Discount rate                  | <b>3.88 %</b>      | 3.67 %             |
| Expected return on plan assets | <b>7.50</b>        | 7.50               |
| <br><u>Benefit obligation</u>  |                    |                    |
| Discount rate                  | <b>4.12 %</b>      | 3.88 %             |

Expected benefits to be paid for the next ten years as of June 30, 2018 are as follows:

|  |    |           |
|--|----|-----------|
| 2019   | \$ | 621,670   |
| 2020   |    | 679,911   |
| 2021   |    | 752,585   |
| 2022   |    | 832,615   |
| 2023   |    | 890,216   |
| Aggregate for the next five years thereafter |    | 5,062,531 |

No contributions are expected to be made in 2019.

The Organization has adopted the recognition provisions of FASB ASC No. 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 No. 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 No. 715-20.

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The Organization 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>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| Accumulated postretirement benefit obligation                                | \$ 211,659          | \$ 276,851          |
| Fair value of plan assets  | <u>-</u>            | <u>-</u>            |
| Funded status  | <u>\$ (211,659)</u> | <u>\$ (276,851)</u> |
| Accrued benefit liability recognized in the statement of financial position: |                     |                     |
| Current portion  | \$ (15,522)         | \$ (16,957)         |
| Long-term portion  | <u>(196,137)</u>    | <u>(259,894)</u>    |
|  | <u>\$ (211,659)</u> | <u>\$ (276,851)</u> |

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

|                           | <u>2018</u> | <u>2017</u> |
|---------------------------|-------------|-------------|
| <u>Benefit cost</u>       |             |             |
| Discount rate             | 2.65 %      | 2.87 %      |
| <u>Benefit obligation</u> |             |             |
| Discount rate             | 3.84 %      | 2.65 %      |

Activities for the year consist of:

|  |                  |                  |
|--|------------------|------------------|
| Benefit cost                             | \$ <u>4,125</u>  | \$ <u>7,206</u>  |
| Employer contributions and benefits paid | \$ <u>12,934</u> | \$ <u>22,637</u> |

Expected benefits to be paid for the next ten years as of June 30, 2018 are as follows:

|  |           |
|--|-----------|
| 2019   | \$ 14,638 |
| 2020   | 15,002    |
| 2021   | 15,316    |
| 2022   | 15,570    |
| 2023   | 15,771    |
| Aggregate for the next five years thereafter | 79,278    |

Contributions expected to be made in 2019 are \$14,638.

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

An assumed health cost increase of 5.0% was used for 2019 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 healthcare cost trend for 2018 would increase the benefit cost by \$730 and the benefit obligation by \$18,022. A one percentage point decrease in the assumed healthcare cost trend for 2018 would decrease the benefit cost by \$626 and the benefit obligation by \$16,054.

**7. Deferred Compensation Payable**

The Organization 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 3.8% and 2.61% at June 30, 2018 and 2017, respectively. The Organization recognized a benefit of \$36,480 and an expense of \$100,438 for the years ended June 30, 2018 and 2017, respectively, under these arrangements.

In conjunction with the salary continuation agreements, the Organization 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 the Organization, who will pay the remaining former executive. Pacific Life will continue to make annuity payments for the lifetime of the executive. At June 30, 2018 and 2017, the present value of amounts anticipated to be received from the annuity based on actuarial assumptions regarding life expectancy and market interest rates are \$1,002,953 and \$1,156,181, respectively.

The estimated total amounts to be paid to the individual as of June 30, 2018 for deferred compensation benefits over the next five years are as follows:

|      |    |        |
|------|----|--------|
| 2019 | \$ | 87,750 |
| 2020 |    | 87,750 |
| 2021 |    | 87,750 |
| 2022 |    | 87,750 |
| 2023 |    | 87,750 |

**8. Concentration of Credit Risk**

Fees from State of Maine government agencies comprised approximately 74% and 76% of the Organization's unrestricted revenues, gains and other support for the years ended June 30, 2018 and 2017, respectively. Approximately 5% for the year ended June 30, 2018 and 7% for the year ended June 30, 2017 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. AND  
FOR DEVELOPMENTAL RESOURCES**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

The Organization is also subject to concentrations of credit risk in conjunction with its cash and trustee held funds. At June 30, 2018, the Organization had cash on deposit with banks of \$2,548,994. Of this amount, \$539,659 was federally insured and \$1,896,040 was collateralized by repurchase agreements. Additionally, trustee held funds totaling \$907,919 as of June 30, 2018 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.

**9. Commitments and Contingencies**

**Malpractice Contingencies**

Spurwink Services, Inc. insures its professional malpractice risks on a claims-made basis. At June 30, 2018, there were no known malpractice claims nor incidents outstanding which were expected to exceed the insurance policy limits. The Organization intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

**Self-Insurance Contingencies**

The Organization is self-insured for unemployment benefits. The Organization participates in a state unemployment insurance trust collateralized by the letter of credit described in Note 4. 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, 2018 or 2017.

The Organization is self-insured for general liability insurance. Monthly deposits are made to a trust to cover claims as incurred. No liability for general liability insurance has been recorded as management does not expect any amounts are owed beyond the amounts deposited to the trust as of June 30, 2018 or 2017.

The Organization 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, 2018 or 2017.

The Organization became partially self-insured with respect to health care coverage effective July 1, 2017. This coverage is used to provide medical health benefits to its eligible employees and their eligible dependants. The stop loss provision under the Organization's insurance policy is \$150,000 per individual subscriber and approximately \$1,000,000 in the aggregate. The Organization estimates an accrual for claims incurred but not reported, which was \$600,000 at June 30, 2018, and is included in accounts payable and accrued liabilities in the 2018 consolidated statements of financial position.

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

**Asset Retirement Obligation**

The State of Maine requires special disposal procedures relating to building materials containing asbestos. The Organization'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**

As of June 30, 2018, the Organization was in the process renovating one of their residential locations and paving at another location. The renovation project was completed in August 2018 and cost approximately \$2.3 million. The paving project was completed in August 2018 and cost approximately \$62,000. Spurwink has also begun implementation of a new electronic medical records system whose expected cost to complete is \$250,000, and is expected to be completed in March 2019.

**10. Prior Period Adjustment**

During the year, the Organization identified an issue in reporting under its Affiliates program. The subsequent investigation of amounts billed in 2017 and 2018 identified errors that resulted in overstatements of revenues and expenses of \$1,443,489 and \$1,033,573, respectively, for the year ended June 30, 2017. As a result, the 2017 financial statements were restated to reflect a decrease in revenue, expenses, and associated accounts receivable and payable, and a decrease in change in unrestricted net assets in 2017 of \$409,916.

## **SUPPLEMENTARY INFORMATION**

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Consolidating Statement of Financial Position**

**June 30, 2018**

| <b>ASSETS</b>  | Spurwink<br><u>Services, Inc.</u> | FOR<br>Developmental<br><u>Resources</u> | <u>Eliminations</u> | <u>Total</u>         |
|--|-----------------------------------|--|---------------------|----------------------|
| Current assets   |                                   |  |                     |                      |
| Cash   | \$ 883,119                        | \$ 36,270                                | \$ -                | \$ 919,389           |
| Accounts receivable, net   | 9,057,698                         | -  | -                   | 9,057,698            |
| Assets whose use is limited, current portion                               | 902,843                           | 5,076                                    | -                   | 907,919              |
| Annuity receivable, current portion  | 87,750                            | -  | -                   | 87,750               |
| Due from affiliate   | 290,902                           | -  | (290,902)           | -                    |
| Prepaid expenses and other current assets                                  | <u>1,698,341</u>                  | <u>1,719</u>                             | <u>-</u>            | <u>1,700,060</u>     |
| Total current assets   | <u>12,920,653</u>                 | <u>43,065</u>                            | <u>(290,902)</u>    | <u>12,672,816</u>    |
| Property and equipment   |                                   |  |                     |                      |
| Land and buildings   | 27,504,400                        | 757,488                                  | -                   | 28,261,888           |
| Equipment  | 3,522,397                         | 16,430                                   | -                   | 3,538,827            |
| Automobiles  | 2,656,212                         | -  | -                   | 2,656,212            |
| Leasehold improvements   | 2,026,768                         | -  | -                   | 2,026,768            |
| Projects in progress   | <u>2,703,538</u>                  | <u>-</u>                                 | <u>-</u>            | <u>2,703,538</u>     |
|  | 38,413,315                        | 773,918                                  | -                   | 39,187,233           |
| Less accumulated depreciation and amortization                             | <u>14,708,280</u>                 | <u>412,374</u>                           | <u>-</u>            | <u>15,120,654</u>    |
| Net property and equipment   | <u>23,705,035</u>                 | <u>361,544</u>                           | <u>-</u>            | <u>24,066,579</u>    |
| Other assets   |                                   |  |                     |                      |
| Investments  | 446,078                           | -  | -                   | 446,078              |
| Annuity receivable, net of amount required to meet current obligations     | 616,107                           | -  | -                   | 616,107              |
| Deferred compensation plan   | 915,203                           | -  | -                   | 915,203              |
| Deposits   | 258,563                           | -  | -                   | 258,563              |
| Assets whose use is limited, long-term portion                             | 141,461                           | -  | -                   | 141,461              |
| Total other assets   | <u>759,431</u>                    | <u>16,116</u>                            | <u>-</u>            | <u>775,547</u>       |
| Total assets   | <u>3,136,843</u>                  | <u>16,116</u>                            | <u>-</u>            | <u>3,152,959</u>     |
| Total assets   | <u>\$ 39,762,531</u>              | <u>\$ 420,725</u>                        | <u>\$ (290,902)</u> | <u>\$ 39,892,354</u> |
| <b>LIABILITIES AND NET ASSETS (DEFICIT)</b>                                |                                   |  |                     |                      |
| Current liabilities  |                                   |  |                     |                      |
| Accounts payable and accrued liabilities                                   | \$ 3,059,360                      | \$ 21,557                                | \$ -                | \$ 3,080,917         |
| Accrued wages and related expenses   | 2,093,130                         | 963                                      | -                   | 2,094,093            |
| Program settlements payable  | 160,285                           | -  | -                   | 160,285              |
| Current portion of long-term debt  | 1,426,483                         | 15,223                                   | -                   | 1,441,706            |
| Current portion of capital leases  | 81,954                            | -  | -                   | 81,954               |
| Deferred revenue   | 72,291                            | -  | -                   | 72,291               |
| Due to affiliate   | -                                 | 290,902                                  | (290,902)           | -                    |
| Other current liabilities  | <u>128,367</u>                    | <u>1,834</u>                             | <u>-</u>            | <u>130,201</u>       |
| Total current liabilities  | <u>7,021,870</u>                  | <u>330,479</u>                           | <u>(290,902)</u>    | <u>7,061,447</u>     |
| Long-term liabilities  |                                   |  |                     |                      |
| Long-term debt, net of current portion and unamortized debt issuance costs | 11,893,311                        | 109,570                                  | -                   | 12,002,881           |
| Deferred compensation payable, net of current portion                      | 1,173,766                         | -  | -                   | 1,173,766            |
| Post retirement benefits, net of current portion                           | 196,137                           | -  | -                   | 196,137              |
| Pension liabilities  | -                                 | -  | -                   | -                    |
| Capital leases, net of current portion                                     | <u>296,998</u>                    | <u>-</u>                                 | <u>-</u>            | <u>296,998</u>       |
| Total long-term liabilities  | <u>13,560,212</u>                 | <u>109,570</u>                           | <u>-</u>            | <u>13,669,782</u>    |
| Total liabilities  | <u>20,582,082</u>                 | <u>440,049</u>                           | <u>(290,902)</u>    | <u>20,731,229</u>    |
| Net assets (deficit)   |                                   |  |                     |                      |
| Unrestricted   | 19,123,791                        | (19,324)                                 | -                   | 19,104,467           |
| Temporarily restricted   | 28,047                            | -  | -                   | 28,047               |
| Permanently restricted   | <u>28,611</u>                     | <u>-</u>                                 | <u>-</u>            | <u>28,611</u>        |
| Total net assets (deficit)   | <u>19,180,449</u>                 | <u>(19,324)</u>                          | <u>-</u>            | <u>19,161,125</u>    |
| Total liabilities and net assets   | <u>\$ 39,762,531</u>              | <u>\$ 420,725</u>                        | <u>\$ (290,902)</u> | <u>\$ 39,892,354</u> |

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Consolidating Statement of Activities**

**Year Ended June 30, 2018**

|  | Spurwink<br>Services, Inc. | FOR<br>Developmental<br>Resources | Total                |
|--|----------------------------|-----------------------------------|----------------------|
| Unrestricted revenue and other support                             |                            |                                   |                      |
| Fees for services  |                            |                                   |                      |
| State of Maine agencies  | \$ 49,541,549              | \$ -                              | \$ 49,541,549        |
| Maine school districts   | 3,146,903                  | -                                 | 3,146,903            |
| Third-party insurance  | 2,003,708                  | -                                 | 2,003,708            |
| Private pay  | 1,282,476                  | -                                 | 1,282,476            |
| Social Security  | 633,221                    | -                                 | 633,221              |
| Medicare   | 357,315                    | -                                 | 357,315              |
| Grants   | 7,439,858                  | -                                 | 7,439,858            |
| Contributions  | 775,924                    | -                                 | 775,924              |
| Investment income  | 99,189                     | -                                 | 99,189               |
| Gain on sale of property and equipment                             | 283,883                    | -                                 | 283,883              |
| Training revenue   | 324,546                    | -                                 | 324,546              |
| Other revenue  | 414,429                    | 64,222                            | 478,651              |
| Total unrestricted revenues, gains and other support               | <u>66,303,001</u>          | <u>64,222</u>                     | <u>66,367,223</u>    |
| Unrestricted expenses  |                            |                                   |                      |
| Program services   | 57,233,142                 | 40,371                            | 57,273,513           |
| Management and general   | 7,025,597                  | -                                 | 7,025,597            |
| Non-program and fundraising  | 1,006,993                  | -                                 | 1,006,993            |
| Total unrestricted expenses  | <u>65,265,732</u>          | <u>40,371</u>                     | <u>65,306,103</u>    |
| Non-operating gain   |                            |                                   |                      |
| Change in net assets to recognize funded status of pension expense | 1,823,026                  | -                                 | 1,823,026            |
| Excess of assets acquired over liabilities assumed in acquisition  | 4,181,302                  | 290,902                           | 4,472,204            |
| Transfer from subsidiary (to parent)                               | 290,902                    | (290,902)                         | -                    |
| Total non-operating gain   | <u>6,295,230</u>           | <u>-</u>                          | <u>6,295,230</u>     |
| Change in unrestricted net assets                                  | <u>7,332,499</u>           | <u>23,851</u>                     | <u>7,356,350</u>     |
| Temporarily restricted net assets                                  |                            |                                   |                      |
| Contributions  | 80                         | -                                 | 80                   |
| Change in temporarily restricted net assets                        | <u>80</u>                  | <u>-</u>                          | <u>80</u>            |
| Change in net assets   | 7,332,579                  | 23,851                            | 7,356,430            |
| Net assets (deficit), beginning of period                          | <u>11,847,870</u>          | <u>(43,175)</u>                   | <u>11,804,695</u>    |
| Net assets (deficit), at end of period                             | <u>\$ 19,180,449</u>       | <u>\$ (19,324)</u>                | <u>\$ 19,161,125</u> |

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2018**

| <u>Federal Grantor/Program Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Identifier/Contract Number</u> | <u>Federal<br/>Expenditures</u> |
|--|------------------------------------|--|---------------------------------|
| U.S. Department of Housing and Urban Development<br>Direct                                     |                                    |  |                                 |
| Supportive Housing for the Elderly   | 14.157                             |  | \$ 124,793                      |
| Section 8 Housing Assistance Payments<br>Program   | 14.195                             |  | <u>89,245</u>                   |
| Total U.S. Department of Housing and<br>Urban Development                                      |                                    |  | <u>214,038</u>                  |
| U.S. Department of Education<br>Direct   |                                    |  |                                 |
| Education Innovation and Research  | 84.411                             |  | 5,240,148                       |
| Passed through Maine Department of Education<br>Special Education - Grants to States           | 84.027                             | 20160818*552                                       | <u>22,500</u>                   |
| Total U.S. Department of Education   |                                    |  | <u>5,262,648</u>                |
| U.S. Department of Health and Human Services<br>Direct   |                                    |  |                                 |
| Positive Youth Development   | 93.885                             |  | 54,342                          |
| Substance Abuse and Mental Health Services -<br>Projects of Regional and National Significance | 93.243                             |  | 305,560                         |
| Passed through Maine Department of Education<br>ACL Assistive Technology                       | 93.464                             | 20176505*3445                                      | <u>173,068</u>                  |
| Total U.S. Department of Health and<br>Human Services  |                                    |  | <u>532,970</u>                  |
| Total expenditures of federal awards   |                                    |  | \$ <u>6,009,656</u>             |

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

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

**Year Ended June 30, 2018**

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Spurwink Services, Inc. and FOR Developmental Resources (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 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.

**SPURWINK SERVICES INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Schedule of Expenditures of Department Agreements**

**Year Ended June 30, 2018**

| <b>Department Office</b> | <b>Agreement Number</b> | <b>Agreement Amount</b> | <b>Agreement Period</b> | <b>Agreement Service</b>          | <b>Agreement Status</b>    | <b>Federal Expenses</b> | <b>State Expenses</b> | <b>Total Department Expenses</b> |
|--------------------------|-------------------------|-------------------------|-------------------------|-----------------------------------|----------------------------|-------------------------|-----------------------|----------------------------------|
| <b>DHHS:</b>             |                         |                         |                         |                                   |                            |                         |                       |                                  |
| OAMHS                    | MH1-17-838              | \$ 101,224              | 07/01/2016-06/30/2018   | ACT                               | Final                      | \$ -                    | \$ 36,108             | \$ 36,108                        |
| OAMHS                    | MH1-18-4006             | \$ 50,612               | 07/01/2017-06/30/2019   | Medication Management             | Interim                    | -                       | 8,142                 | 8,142                            |
| CBH                      | CBH-17-7009             | \$ 25,000               | 10/01/2016-09/30/2017   | TIP                               | Final                      | -                       | 3,045                 | 3,045                            |
| CBH                      | CBH-18-7009             | \$ 23,055               | 10/01/2017-09/30/2018   | TIP                               | Interim                    | -                       | 7,143                 | 7,143                            |
| OADS                     | ADS-18-2581             | \$ 62,028               | 07/01/2017-06/30/2018   | Rental Subsidy                    | Final                      | -                       | 56,245                | 56,245                           |
| OADS                     | ADS-18-1558             | \$ 42,813               | 01/01/2018-06/30/2018   | Rental Subsidy                    | Final                      | -                       | 30,579                | 30,579                           |
| CFS                      | CFS-18-8025             | \$ 45,949               | 07/01/2017-06/30/2018   | Child Abuse Program               | Final                      | -                       | 45,949                | 45,949                           |
| CFS                      | * 1072A                 | \$ 1,029,971            | 1998-No Termination     | Group Foster Care                 | Interim                    | -                       | 1,029,971             | 1,029,971                        |
| CFS                      | * CFS-18-8721           | \$ 650,714              | 07/01/2017-06/30/2018   | Foster Care Clinical Intervention | Final                      | -                       | 208,742               | 208,742                          |
|                          |                         |                         |                         |                                   | <b>Subtotal (Direct)</b>   | -                       | 1,425,924             | 1,425,924                        |
| <b>DHHS Indirect:</b>    |                         |                         |                         |                                   |                            |                         |                       |                                  |
|                          | N/A                     |                         |                         |                                   |                            | -                       | -                     | -                                |
|                          |                         |                         |                         |                                   | <b>Subtotal (Indirect)</b> | -                       | -                     | -                                |
|                          |                         |                         |                         |                                   | <b>Total</b>               | \$ -                    | \$ 1,425,924          | \$ 1,425,924                     |

\* Department agreement tested

The accompanying notes are an integral part of this schedule.

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

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

**Year Ended June 30, 2018**

**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. and FOR Developmental Resources (the Organization) under programs of the Department for the year ended June 30, 2018. 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 the Organization, 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: 87%



**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 Boards of Directors  
Spurwink Services, Inc. and FOR Developmental Resources

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 consolidated financial statements of Spurwink Services, Inc. and FOR Developmental Resources (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 18, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs related to federal awards as findings 2018-001 and 2018-002, that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

### **Response to Findings**

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs related to federal awards. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

### **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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
December 18, 2018



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

The Boards of Directors  
Spurwink Services, Inc. and FOR Developmental Resources

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

We have audited Spurwink Services, Inc. and FOR Developmental Resources' (the Organization) 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, 2018. The Organization'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 the Organization'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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 the Organization's compliance.

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

In our opinion, Spurwink Services, Inc. and FOR Developmental Resources 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, 2018.

## Report on Internal Control Over Compliance

Management of the Organization 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 the Organization'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  
January 4, 2019

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Schedule of Findings and Questioned Costs Related to Federal Awards**

**Year Ended June 30, 2018**

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

**Financial Statements**

Type of auditor's report issued:

Unmodified

|   |                                     |     |                                     |               |
|---|-------------------------------------|-----|-------------------------------------|---------------|
| Material weakness(es) identified?   | <input checked="" type="checkbox"/> | Yes | <input 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            |

**Federal Awards**

Internal control over major programs:

|   |                          |     |                                     |               |
|---|--------------------------|-----|-------------------------------------|---------------|
| 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 major programs:

Unmodified

|  |                          |     |                                     |    |
|--|--------------------------|-----|-------------------------------------|----|
| Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
|--|--------------------------|-----|-------------------------------------|----|

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.411

Education Innovation and Research

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

\$750,000

|  |                          |     |                                     |    |
|--|--------------------------|-----|-------------------------------------|----|
| Auditee qualified as low-risk auditee? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
|--|--------------------------|-----|-------------------------------------|----|

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Schedule of Findings and Questioned Costs Related to Federal Awards (Continued)**

**Year Ended June 30, 2018**

**Section II. Financial Statement Findings**

**Finding 2018-001**

**Criteria**

Management is responsible for the design, implementation, and monitoring of internal control to reduce to a relatively low level the risk that material misstatements, caused by fraud or error, may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

**Condition and Context**

Revenues and expenses related to the Organization's affiliates program were overstated by \$1,443,489 and \$1,033,573, respectively, for the year ended June 30, 2017. As a result, the 2017 financial statements were restated.

**Cause and Effect**

Management was unable to generate accurate reports of revenue billed under the Organization's affiliates programs, and internal controls were not adequate to identify the errors. This resulted in material overstatements of revenues and expenses.

**Recommendation**

We recommend management work with the billing software vendor to create a report that will accurately report, in a timely manner, the amount of revenue associated with services performed but not yet billed. Any reports built should be thoroughly tested to help ensure the accuracy and integrity of the data.

**Management's Response**

Management concurs with the finding. See management's Corrective Action Plan attached.

Responsible party: John McAnuff, CFO and Treasurer, (207) 871-1200 ext. 2110

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Schedule of Findings and Questioned Costs Related to Federal Awards (Concluded)**

**Year Ended June 30, 2018**

**Finding 2018-002**

**Criteria**

Management is responsible for the design, implementation, and monitoring of internal control to reduce to a relatively low level the risk that material misstatements, caused by fraud or error, may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

**Condition and Context**

Our auditing procedures resulted in two significant journal entries based on differences between management's schedules and the trial balance that had to be recorded in order for the consolidated financial statements to be presented in accordance with U.S. generally accepted accounting principles.

**Cause and Effect**

The reconciliations were reviewed by management; however, the reconciliations were for transactions outside the normal accounting process and contained errors, which were not caught during the review process and resulted in the significant audit adjustments. Interest expense was understated by \$190,216 and buildings and equipment were understated by \$413,365.

**Recommendation**

We recommend management review the financial statements with a particular focus on infrequent transactions to help ensure all transactions are appropriately reported in the financial statements.

**Management's Response**

Management concurs with the finding. See management's Corrective Action Plan attached.

Responsible party: John McAnuff, CFO and Treasurer, (207) 871-1200 ext. 2110

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

None.

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

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

**Year Ended June 30, 2018**

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

None.

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

None.



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

The Boards of Directors  
Spurwink Services, Inc. and FOR Developmental Resources

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

We have audited Spurwink Services, Inc. and FOR Developmental Resources' (the Organization) 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 each of the Organization's major Department agreement for the year ended June 30, 2018. The Organization's major Department agreements are 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 each of the Organization's major Department agreements 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 a major Department agreement occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Department Agreement***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Department agreements for the year ended June 30, 2018.

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major Department agreement to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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 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 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  
January 4, 2019

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

**Schedule of Findings and Questioned Costs Related to Department Agreements**

**Year Ended June 30, 2018**

**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 checked="" type="checkbox"/> | Yes | <input 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?  Yes  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                 |
| CFS-18-8721 | Foster Care Clinical Intervention |

**Section II. Financial Statement Findings**

See Schedule of Findings and Questioned Costs Related to Federal Awards.

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

None.

**SPURWINK SERVICES, INC. AND  
FOR DEVELOPMENTAL RESOURCES**

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

**Year Ended June 30, 2018**

**Section I. Prior Year Financial Statement Findings**

None.

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

None.



**SPUR  
WINK**

going the distance

**ADMINISTRATION**  
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**Spurwink Services, Inc.**

**Corrective Action Plan**

**Finding 2018-001**

Spurwink Services, Inc. (Spurwink) has contracted with a vendor to create a data warehouse that will pull client data on a nightly basis. Once the data is verified, Spurwink should be able to recognize revenue that has been earned but not yet billed.

**Finding 2018-002**

Spurwink has hired an additional senior-level staff member, who is licensed as a certified public accountant. This newly added staff member, along with the current controller, will be proposing journal entries for transactions that are complex in nature and infrequent in occurrence. The Chief Financial Officer will review and approve these entries.

