

MARRAKECH, INC.

Audited Consolidated Financial Statements

June 30, 2010 and 2009

MARRAKECH, INC.

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5
SUPPLEMENTARY INFORMATION	
Consolidated Supporting Schedule of Operating Revenue	12
Consolidated Supporting Schedule of Non-Salary	13
Consolidated Supporting Schedule of Employee Benefits	14
Schedule of Expenditures of State Financial Assistance	15
Notes to the Schedule of Expenditures of State Financial Assistance	16
SUPPLEMENTARY REPORTS	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	17
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With the State Single Audit Act	18
Schedule of Findings and Questioned Costs	20

INDEPENDENT AUDITOR'S REPORT



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Marrakech, Inc.:

We have audited the accompanying consolidated statement of financial position of Marrakech, Inc. (a nonprofit organization referred to as the Organization) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 6 of the consolidated financial statements, the Organization has excluded the effects of CIL Realty, Inc. lease obligations from property and debt in the accompanying consolidated statement of financial position. In our opinion, accounting principles generally accepted in the United States of America require that such obligations be included in the consolidated statement of financial position.

In our opinion, except for the effect of the lease obligations on the consolidated statement of financial position as explained in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of June 30, 2010 and 2009 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2011 on our consideration of the Organization's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the Organization taken as a whole. The supplementary data included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the Office of Policy and Management, *Compliance Supplement to the State Single Audit Act*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Guilmartin, DiPiro & Sokolowski, LLC.

Middletown, Connecticut
January 7, 2011

FINANCIAL STATEMENTS

MARRAKECH, INC.

Consolidated Statement of Financial Position

June 30, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and equivalents	\$ 1,401,941	\$ 1,524,745
Restricted cash held by bank on deposit as compensating balance	566,498	86,815
Accounts receivable, net of allowance for doubtful accounts of \$326,399 in 2010 and \$340,637 in 2009	3,781,608	3,360,707
Due from Habilitative Resource Services, Inc.	209,562	-
Prepaid expenses	475,101	365,103
Total current assets	<u>6,434,710</u>	<u>5,337,370</u>
Fixed assets:		
Property and equipment at cost, less accumulated depreciation of \$5,075,690 in 2010 and \$4,486,587 in 2009	<u>11,805,904</u>	<u>10,398,478</u>
Other assets:		
Due from Whalley Housing Services, Inc.	55,157	45,546
Other assets	23,604	58,141
Total other assets	<u>78,761</u>	<u>103,687</u>
Total assets	<u>\$ 18,319,375</u>	<u>\$ 15,839,535</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Current portion of long-term debt	\$ 2,080,140	\$ 1,409,727
Accounts payable	758,761	387,549
Accrued liabilities	2,585,467	2,190,389
Due to grantors	684,991	655,298
Deferred revenue, current portion	260,212	295,970
Total current liabilities	<u>6,369,571</u>	<u>4,938,933</u>
Long-term liabilities:		
Mortgages payable, less current portion	5,249,963	5,734,888
Loans payable, less current portion	1,593,784	557,801
Due to HRS	-	17,781
Deferred revenue, less current portion	457,195	513,268
Cash advance payable	429,909	354,750
Contingent liabilities - see Note 8	-	-
Total long-term liabilities	<u>7,730,851</u>	<u>7,178,488</u>
Total liabilities	<u>14,100,422</u>	<u>12,117,421</u>
Net assets:		
Unrestricted	3,648,461	3,191,459
Temporarily restricted	570,492	530,655
Total net assets	<u>4,218,953</u>	<u>3,722,114</u>
Total liabilities and net assets	<u>\$ 18,319,375</u>	<u>\$ 15,839,535</u>

See accompanying notes to financial statements.

MARRAKECH, INC.

Consolidated Statement of Activities

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Changes in Unrestricted Net Assets</u>		
Revenue and other support:		
Operating revenue	\$ 28,086,427	\$ 27,707,474
Donations and fund-raising	175,458	175,926
Interest income	2,315	6,757
Net assets released from restrictions	<u>33,792</u>	<u>21,516</u>
Total unrestricted revenue and other support	<u>28,297,992</u>	<u>27,911,673</u>
Operating expenses:		
Salary	17,522,256	17,390,109
Non-salary	6,345,491	6,587,244
Employee benefits	<u>3,973,243</u>	<u>3,642,637</u>
Total operating expenses	<u>27,840,990</u>	<u>27,619,990</u>
Increase in unrestricted net assets	<u>457,002</u>	<u>291,683</u>
Other income and expense:		
Grant funding received for Whalley Avenue Housing II, Inc. - see Note 11	-	155,911
Transfer of grant funds to Whalley Avenue Housing II, Inc. - see Note 11	<u>-</u>	<u>(155,911)</u>
	<u>-</u>	<u>-</u>
Unrestricted net assets, beginning of year	<u>3,191,459</u>	<u>2,899,776</u>
Unrestricted net assets, end of year	<u>\$ 3,648,461</u>	<u>\$ 3,191,459</u>
<u>Changes in Temporarily Restricted Net Assets</u>		
Donations	\$ 73,629	\$ -
Net assets released from restrictions	<u>(33,792)</u>	<u>(21,516)</u>
Increase (decrease) in temporarily restricted net assets	<u>39,837</u>	<u>(21,516)</u>
Temporarily restricted net assets, beginning of year	<u>530,655</u>	<u>552,171</u>
Temporarily restricted net assets, end of year	<u>\$ 570,492</u>	<u>\$ 530,655</u>
Total change in net assets	<u>\$ 496,839</u>	<u>\$ 270,167</u>

See accompanying notes to financial statements.

MARRAKECH, INC.

Consolidated Statement of Cash Flows

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 496,839	\$ 270,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	623,884	633,474
Loss (gain) on disposal of assets	18,075	(16,940)
(Increase) decrease in accounts receivable	(420,901)	195,585
(Increase) in prepaid assets	(109,998)	(189,214)
Decrease (increase) in other assets	33,873	(25,637)
Increase (decrease) in accounts payable	371,212	(176,860)
Increase (decrease) in accrued liabilities	395,078	(357,894)
Increase in due to grantors	29,693	13,144
(Increase) in due from others	(38,273)	(2,857)
(Decrease) in due to others	(17,781)	(12,355)
(Decrease) increase in deferred revenue	(16,672)	409,248
Total adjustments	<u>868,190</u>	<u>469,694</u>
Net cash provided by operating activities	<u>1,365,029</u>	<u>739,861</u>
Cash flows from investing activities:		
Cash payments for the purchase and development of property	<u>(1,143,475)</u>	<u>(857,414)</u>
Net cash (used) by investing activities	<u>(1,143,475)</u>	<u>(857,414)</u>
Cash flows from financing activities:		
Increase in due to related party	-	54,037
(Decrease) in due to related party	-	(56,113)
Proceeds of line of credit	3,950,000	4,650,000
Repayment of line of credit	(3,570,000)	(4,330,000)
Proceeds of long-term debt	347,407	-
Principal payments on loans and capital leases	<u>(592,082)</u>	<u>(562,409)</u>
Net cash provided (used) by financing activities	<u>135,325</u>	<u>(244,485)</u>
Net increase (decrease) in cash and equivalents	356,879	(362,038)
Cash and equivalents, beginning of year	<u>1,611,560</u>	<u>1,973,598</u>
Cash and equivalents, end of year	<u>\$ 1,968,439</u>	<u>\$ 1,611,560</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	<u>\$ 447,967</u>	<u>\$ 494,774</u>
Non-cash investing and financing activities:		
Acquisition and development of property through debt financing	<u>\$ 1,086,146</u>	<u>\$ 239,373</u>
Assumption of mortgage (by buyer) for sale of property	<u>\$ -</u>	<u>\$ 388,957</u>
Transfer of property at net book value to HRS	<u>\$ 180,900</u>	<u>\$ -</u>

See accompanying notes to financial statements.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

These consolidated financial statements include Marrakech, Inc. and its sister corporations, Marrakech Housing Options, Inc., Marrakech Day Services, Inc. and Marrakech Residential Services, Inc. (the Agencies).

Marrakech, Inc. operates programs for persons with disabilities in the State of Connecticut. Additionally, it provides management services for Marrakech Housing Options, Inc., Marrakech Day Services, Inc. and Marrakech Residential Services, Inc.

Marrakech Housing Options, Inc. and Marrakech Residential Services, Inc. operate private group homes, supported living arrangements and day programs for persons with disabilities in the State of Connecticut. The operating revenue for the Agencies comes primarily from the Connecticut Departments of Developmental Services (DDS) and Social Services (DSS) and the Social Security Administration (SSA).

Marrakech Day Services, Inc. operates vocational day programs which are licensed by the State of Connecticut for disadvantaged and developmentally disabled persons. It is principally funded through cost reimbursements from the State of Connecticut Department of Mental Health and Addiction Services (DMHAS).

Basis of presentation

The consolidated financial statements of the Agencies have been prepared on the accrual basis of accounting. Significant intercompany accounts and transactions have been eliminated on the consolidated statement of financial position, consolidated statement of activities and consolidated statement of cash flows. These transactions are described in Note 9.

A summary of Marrakech, Inc.'s, Marrakech Housing Options, Inc.'s, Marrakech Day Services, Inc.'s and Marrakech Residential Services, Inc.'s significant accounting policies is as follows:

Income tax status

The Agencies have received exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Agencies have also been classified as entities that are not private foundations within the meaning of Section 509(a) and qualify for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Management has reviewed the Agencies reporting and believe they have not taken tax positions that are more likely than not to be determined to be incorrect by the Internal Revenue Service and therefore no adjustments or disclosures are required.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the certain reported amounts. Accordingly actual results could differ from those estimates.

Cash and cash equivalents

For the purpose of the statement of cash flows, the Agencies consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Allowance for bad debts

The allowance for doubtful accounts is based on management's evaluation of specific accounts receivable at the end of the year. Receivables are written off to the allowance when it is probable that the Agencies will not collect the receivable.

Property and equipment

The Agencies follow the practice of capitalizing at cost all property and equipment with costs in excess of stated amounts as required by the Agencies' funding sources. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 30 years. Maintenance and repairs are charged to expenses as incurred.

Net asset categories

To ensure observance of limitations and restrictions placed on the use of resources available to the Agencies, the limitations and restrictions are maintained in the following net asset categories:

Unrestricted

All of the Agencies' unrestricted net assets are for general use by the corporations.

Temporarily restricted

Temporarily restricted net assets represent costs of buildings, building renovations and vehicles acquired via donation or grant awards. The Agencies must utilize the respective properties to which these contributions or grants pertain in

MARRAKECH, INC.

Notes to Consolidated Financial Statements, Continued

Temporarily restricted, continued

accordance with any restrictive covenants and for any designated time periods set forth as conditions of the awards.

Where specific time frames have been stipulated for qualified use, assets are released from restriction either ratably over the period of restriction or in full at the period's end, in keeping with grantor restrictions. Where no designated time frame for qualified use has been set, assets are released from restriction in amounts equal to the annual depreciation taken over their useful lives in accordance with the Agencies' depreciation policies.

As of June 30, 2010, there are temporarily restricted net assets of \$570,492.

NOTE 2
CONCENTRATIONS

The Agencies maintain their cash balances with various financial institutions. Such deposits at times have exceeded federal depository limits; however, the Agencies believe their cash deposits are not subject to significant credit risk.

A substantial portion of the Agencies' revenue is derived from grant contracts. Because the grants are evidenced by signed contracts with government and other agencies, management believes there is nominal credit risk associated with any outstanding grants receivable.

NOTE 3
REVENUES

Grants and contracts

The operating revenue for the Agencies comes primarily from the State of Connecticut Departments of Developmental Services (DDS), Children and Families (DCF) and Social Services (DSS), the Social Security Administration (SSA), the Department of Labor (DOL) and the Department of Mental Health and Addiction Services (DMHAS).

Grants and contracts are agreements in which the grantor or contractor requires expenditures for the performance of specified activities. The Agencies record their grant or contract revenue equal to the expenditure of funds in accordance with grant specification. Grant and contract receipts in excess of allowable expenditures are recorded as deferred revenue if the grant extends beyond the Agencies' fiscal year and as due to grantor if the grant was completed within the fiscal year.

Bond revenue

Contributions received by the Agencies under grant-in-aid bonding fund and other agreements, which finance the acquisition of property and stipulate that the property financed must be utilized under a certain time frame, are recorded as deferred capital improvements on the Agencies' statement of financial position. Revenue is recognized over the term of the stipulated time required. These bonding funds are payable back to the donor if the property ceases to be used as required under the funding agreement. Please see Note 8 for grant-in-aid funding received by the Agencies.

Fund-raising

Marrakech conducts various fund-raising activities during the year including various special events and appeals for donations. The total cost of fund-raising activities was \$63,475 and \$67,830 for the years ended June 30, 2010 and 2009, respectively which included salary and benefits associated with Marrakech staff involved in fund-raising activities of \$19,311 and \$20,321, respectively.

NOTE 4
FIXED ASSETS

Components of property and equipment are as follows:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 1,159,168	\$ 1,040,816
Transportation equipment	2,460,893	2,277,348
Buildings, land and improvements	11,237,407	11,201,485
Construction-in-progress	<u>2,024,126</u>	<u>365,416</u>
	16,881,594	14,885,065
Less: accumulated depreciation	<u>5,075,690</u>	<u>4,486,587</u>
Net fixed assets	<u>\$11,805,904</u>	<u>\$10,398,478</u>

Depreciation expense was \$623,220 and \$633,096 for the years ended June 30, 2010 and 2009, respectively.

NOTE 5
DEBT OBLIGATIONS

Line of credit

As of June 30, 2010, Marrakech had a revolving line of credit with Citizens Bank for \$1,250,000 which had expired as of September 30, 2010 and has been temporarily extended by the bank through December 31, 2010. Advances on the line of credit are payable on demand and bear interest at a variable

MARRAKECH, INC.

Notes to Consolidated Financial Statements, Continued

Line of credit, continued

rate under the note agreement. The interest rate was 4.25% as of June 30, 2010 and 2009 and the balances due were \$1,250,000 and \$870,000, respectively. The obligation has been guaranteed by each Agency.

Construction loan

Marrakech has entered into a construction loan with Citizens Bank for the build-out of its Clinton Harbor property, a 16-bed intermediate care facility for developmentally disabled individuals. Advances on the loan are paid by the bank as construction progresses. The maximum amount which may be advanced under the financing agreement is \$2,700,000 including monthly capitalized interest on the loan proceeds outstanding during the construction period. The construction loan will be converted into two permanent loans after completion of the project and will then be repaid over ten and twenty year periods in monthly installments of principal and interest under the terms of Citizens Bank's financing agreement. The loan is secured by Marrakech's Clinton Harbor and Woodbridge main office properties, all other real and personal property of the Agency, a \$500,000 cash collateral reserve held at the bank and an assignment and security interest in various facets of the construction project, including future leases, rents, issues and profits. As of June 30, 2010, the balance of the construction loan was \$1,086,146 and the interest rate was 3.1%.

As the construction financing is expected to be successfully refinanced to permanent long-term financing, management has classified this debt as long-term on Marrakech's consolidated statement of financial position under the guidelines of FASB Codification 470-10-55, to the extent that the construction loan principal will be paid after June 30, 2011.

The Agencies have several other mortgages and notes payable as of June 30, 2010 and 2009. Please see the Schedule of Debt Obligations (Table 5.1) and their respective terms at the end of these footnotes.

NOTE 6

CAPITAL LEASES

The Agency leased five homes from CIL Realty, Inc. in fiscal year 2010 under various remaining lease terms which expire within seven years. GAAP requires "that if the leased property transfers ownership to the lessee by the end of the lease, it is to be classified as a capital lease. The lessee shall record a capital lease as an asset and an obligation at an amount equal to the present value at the beginning of the lease term." Please see "Donations of homes" under Note 12 - Subsequent Events.

The minimum future rental commitments under these leases are as follows:

2011	\$ 84,476
2012	84,476
2013	84,476
2014	84,476
2015	84,476
Thereafter	<u>73,635</u>
	<u>\$496,015</u>

The following additional disclosures show the effect on the consolidated statement of financial position and the consolidated statement of activities if the leased properties were capitalized by the Agencies.

Effect on statement of financial position

Net increase of property and equipment	\$623,419
Increase in long-term debt	<u>453,715</u>
Increase in net assets	<u>\$169,704</u>

Effect on current year statement of activities

Decrease in lease payments	\$104,832
Increase in depreciation	(42,777)
Increase in interest expense	<u>(44,658)</u>
Increase in net income	<u>\$ 17,397</u>

NOTE 7

LEASE OBLIGATIONS

Leased facilities

The Agencies conduct a significant part of their operations from leased facilities. Lease commitments include leases which expire at certain dates through January 31, 2011, as well as certain leases which are on a month-to-month basis. Management expects that in the normal course of business, leases will either be renewed or replaced by other leases. In certain leases the Agencies are required to pay certain operating costs. Various leases contain restrictions as to the use of the properties and subletting arrangements.

MARRAKECH, INC.

Notes to Consolidated Financial Statements, Continued

Leased facilities, continued

At June 30, minimum lease payments due under operating leases for facilities for the next five years ended June 30 are as follows:

2011	\$ 92,263
2012	11,705
2013	-
2014	-
2015	-
Total	<u>\$103,968</u>

Rent expense for the years ended June 30, 2010 and 2009 for these leased facilities was \$262,167 and \$292,567, respectively.

NOTE 8 CONTINGENCY

Marrakech has been awarded grant funding for acquisition of various properties and for building improvements over several years. These grant awards stipulate that if the Agency were to discontinue usage of the property for its specified grant purpose, the grant funds would be repayable, either in whole or a ratable portion (depending on years of usage), back to the grantor.

NOTE 9 CASH ADVANCES

Cash totaling \$429,909 and \$354,750 was advanced to Marrakech Housing Options, Inc. from the Connecticut Department of Developmental Services (DDS) as of June 30, 2010 and 2009, respectively, representing the first month's operating expenses for each of the residential programs. Each of these advances must be repaid if and when Marrakech Housing Options, Inc. no longer provides services under their respective facility license from DDS.

NOTE 10 DEFINED CONTRIBUTION PLAN

The Agencies have adopted a profit sharing plan covering all full-time employees who are at least twenty-one years old and have worked for the Agencies for at least one year. Each participant's interest in the employer's contributions and the earnings thereon are vested 20% after three years of service with an additional 20% vesting for each additional year of service thereafter, up to the maximum vesting of 100%. The Board of Directors determines the amount of the contribution each fiscal year which is allocated to each participant in the same proportion as his or her compensation bears to the

compensation of all participants. Total expenses for the years ended June 30, 2010 and 2009 was \$512,818 and \$519,626, respectively.

NOTE 11 OTHER INCOME AND EXPENSE

As part of its mission to provide affordable housing in the community, Marrakech, Inc. has sponsored Whalley Avenue Housing II, Inc. (WH II), another nonprofit organization, in their efforts to obtain financing from the U.S. Department of Housing and Urban Development (HUD) and from other funding sources and to develop a six unit federally subsidized housing facility. This funding included a commitment from the State of Connecticut Department of Mental Health and Addiction Services to Marrakech Day Services, Inc. prior to the formal legal establishment of WH II.

During the fiscal year ended June 30, 2009, WH II had completed construction of the housing units. As Marrakech had advanced substantial funds to WH II during the construction phase of the property, the Agency had recorded a receivable directly from the State of Connecticut and had credited WH II with a reduction of the amount owed for construction expenditures as of June 30, 2009. The grant has also been recorded as income in the June 30, 2009 statement of activities with a corresponding expense representing the transfer of the costs to WH II.

NOTE 12 SUBSEQUENT EVENTS

Evaluation of subsequent events

Management has evaluated subsequent events through January 7, 2011, the date on which the financial statements were available to be issued.

Clinton Harbor

On November 5, 2010, Marrakech opened their new Clinton Harbor home, a 16-bed intermediate care facility for developmentally disabled individuals. The Agency had financed the construction of the project through a combination of internally generated funds and a construction loan as previously discussed in detail in Note 5 of these financial statements. Permanent financing will replace the construction loan and management expects to obtain the release of their cash collateral reserve of \$500,000, which is currently held by the bank under the terms of the construction financing agreement.

MARRAKECH, INC.

Notes to Consolidated Financial Statements, Continued

Two family home

Marrakech acquired a two-family home during the current fiscal year which was subsequently transferred to another nonprofit agency, Habilitative Resources, Inc. (HRS), for renovation. Upon completion, the home was purchased for \$214,700 from HRS, using mortgage financing, at its developed cost. Management intends to use the property to expand its offerings of safe, affordable housing in the community.

Donations of homes

As described in Note 6, the Agency had five residential lease agreements with the Corporation for Independent Living Realty, Inc. (CIL) during the fiscal year ended June 30, 2010. These agreements all contained special provisions whereby the leased premises were to be donated to the Agency at the end of their respective lease terms (nominally ranging from fiscal year 2010 to 2018) provided the Agency was in full compliance with all of the obligations and conditions related thereto. Due to a history of more favorable economic conditions than those used in computing the original lease terms, the Agency was notified that transfers of the properties would be accelerated. Accordingly, on December 10, 2010 the first property (60 Knollwood Drive, New Haven, Connecticut) was conveyed to the Agency for \$1. The Agency has also been advised that transfer of the remaining four properties will take place during the fiscal year ending June 30, 2011. The early transfer of these properties and cancellation of the related capital lease liabilities will result in a reduction of capital lease liabilities and increase in unrestricted net assets during fiscal year 2011.

NOTE 13

LITIGATION

The Agencies are periodically subject to claims and lawsuits that arise in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits will be reported when the outcome can be accurately estimated.

MARRAKECH, INC.

Notes to Consolidated Financial Statements, Continued

Table 5.1
Schedule of Debt Obligations

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>2010</u>	<u>2009</u>
<u>Mortgages payable</u>					
CCO Mortgage Corporation 106-108 Sherman Avenue, New Haven, Connecticut	4.25%	\$ 903	05/01/18	\$ 72,722	\$ 80,282
CCO Mortgage Corporation 60 Plainfield Avenue, New Haven, Connecticut	8.25%	270	07/01/30	31,795	32,389
CCO Mortgage Corporation 615-617 Whalley Avenue, New Haven, Connecticut	8.25%	338	08/01/30	39,807	40,545
CCO Mortgage Corporation 106-108 Hobart Street, New Haven, Connecticut	6.50%	484	09/01/31	66,755	68,167
CCO Mortgage Corporation 158R Meetinghouse Road, Durham, Connecticut	5.50%	1,416	03/01/36	233,667	237,677
CCO Mortgage Corporation 27-29 Robbins Street, Waterbury, Connecticut	5.63%	1,151	05/01/36	188,256	191,383
CCO Mortgage Corporation 85 Talmadge Hill Road, Prospect, Connecticut	5.88%	2,395	08/01/36	383,146	389,181
CCO Mortgage Corporation 88-90 Sherman Avenue, New Haven, Connecticut	5.63%	1,891	11/01/36	311,385	316,406
CCO Mortgage Corporation 25 Kreger Drive, Wolcott, Connecticut	5.63%	1,917	06/01/37	318,655	323,580
Citizens Bank 514-526 Whalley Avenue, New Haven, Connecticut	5.47%	2,844	02/02/11	252,434	268,921
Citizens Bank 6 Lunar Drive, Woodbridge, Connecticut	5.90%	2,880	12/02/11	53,037	81,009
Community Capital Fund Properties located in Bridgeport, Connecticut at 1041-1043 Main Street, 1053-1057 East Main Street, 224 Beach Street and 426-436 Artic Street	3.00%	1,054	01/01/18	238,243	244,016
Connecticut Department of Developmental Services 43 Ramsdell Street, New Haven, Connecticut	6.00%	1,120	03/01/18	83,142	91,315
Connecticut Department of Developmental Services 159 Osborn Avenue, New Haven, Connecticut	6.00%	1,675	06/01/19	139,332	150,696
Connecticut Department of Developmental Services 25 Kreger Drive, Wolcott, Connecticut	6.00%	1,441	07/01/38	234,263	237,386
Connecticut Housing Finance Authority 21 Victor Hill Road, Branford, Connecticut	7.34%	2,017	09/01/26	229,400	236,488
Connecticut Housing Finance Authority 33 Lake Street, West Haven, Connecticut	6.93%	2,343	07/16/27	281,686	289,951
Connecticut Housing Finance Authority 92 Hurd Road, Trumbull, Connecticut	6.63%	1,734	10/01/30	232,113	237,352
Connecticut Housing Finance Authority 92 View Terrace, East Haven, Connecticut	6.63%	1,740	10/01/30	232,940	238,198
Connecticut Housing Finance Authority 2 Anton Circle, Bridgeport, Connecticut	5.75%	2,425	01/01/33	367,482	375,205
TD Bank Properties located in Bridgeport, Connecticut at 1041-1043 Main Street, 1053-1057 East Main Street, 224 Beach Street and 426-436 Artic Street	7.00%	3,210	12/28/16	426,217	434,174
Wachovia Bank 597 East Street, New Haven, Connecticut	6.66%	1,999	10/01/16	122,109	137,285
Wachovia Bank 118 Migeon Avenue, Torrington, Connecticut	6.25%	1,242	06/01/18	92,563	102,008
Wachovia Bank 615-617 Whalley Avenue, New Haven, Connecticut	7.25%	1,141	08/01/19	92,182	98,831
Wachovia Bank 450 Island Lane, West Haven, Connecticut	7.15%	10,957	10/27/21	1,013,936	1,069,700
				5,737,267	5,972,145
Less: current portion				(487,304)	(237,257)
Total mortgages payable, net of current portion				\$ 5,249,963	\$ 5,734,888

MARRAKECH, INC.

Notes to Consolidated Financial Statements, Continued

Table 5.1
Schedule of Debt Obligations, Continued

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>2010</u>	<u>2009</u>
<u>Loans payable</u>					
CIL Realty, Inc./Accounts receivable	8.50%	\$ 486	01/01/13	\$ 27,103	\$ 30,457
CIL Realty, Inc./All of the Agencies' contract rights and accounts receivable pertaining to certain group homes of Marrakech	0.00%	-	Various	138,000	138,000
Citizens Bank Construction loan - see Note 5	3.10%	-	Various	1,086,146	-
Citizens Bank Line of Credit - see Note 5	4.25%	-	12/31/10	1,250,000	870,000
Connecticut Department of Developmental Services/Unsecured	6.00%	207	07/01/10	206	2,404
Connecticut Department of Developmental Services/Unsecured	6.01%	193	01/01/12	3,323	5,377
Connecticut Department of Developmental Services/Unsecured	6.01%	106	09/01/12	2,587	3,672
Connecticut Department of Developmental Services/Unsecured	6.01%	187	01/01/13	5,192	7,059
Connecticut Department of Developmental Services/Unsecured	6.00%	201	10/01/13	7,102	9,022
Connecticut Department of Developmental Services/Unsecured	6.00%	116	10/01/13	4,115	5,228
Connecticut Department of Developmental Services/Unsecured	6.00%	181	04/01/16	10,669	12,151
Connecticut Department of Developmental Services/Unsecured	6.01%	523	06/01/16	14,524	19,748
Connecticut Department of Developmental Services/Unsecured	6.00%	98	07/01/16	5,889	6,681
Connecticut Department of Developmental Services/Unsecured	6.00%	129	10/01/18	10,037	10,950
GMAC/Automobile	9.15%	567	11/02/09	-	2,225
GMAC/Automobile	9.15%	567	11/02/09	-	2,225
JP Morgan Chase Bank/Automobile	6.83%	482	03/01/12	9,020	14,052
JP Morgan Chase Bank/Automobile	6.64%	432	05/07/12	8,929	13,358
New Alliance Bank/First lien interest in personal property acquired with loan proceeds	7.01%	9,867	01/01/11	34,725	146,183
New Alliance Bank/First lien interest in personal property acquired with loan proceeds	7.07%	9,680	05/01/12	199,269	297,176
New Alliance Bank/Security agreement for specified corporate assets of Marrakech, Inc.	7.25%	6,940	08/01/14	293,002	-
Peoples Bank/Various non real estate assets of group homes located at 20 Cortina Road, East Haven, Connecticut and 470 Stevenson Road, New Haven, Connecticut and a \$100,000 Certificate of Deposit	8.45%	4,385	09/01/11	61,385	114,000
Toyota Credit Corporation/Automobile	6.96%	514	04/15/13	15,397	20,303
				3,186,620	1,730,271
Less: current portion				(1,592,836)	(1,172,470)
Total loans payable, net of current portion				\$ 1,593,784	\$ 557,801

Minimum future principal payments on mortgages and loans for the next five years are as follows:

2011	\$ 2,080,140
2012	551,258
2013	433,442
2014	443,339
2015	392,741
Thereafter	5,022,967
	<u>\$ 8,923,887</u>

Interest expense related to the above mortgages and loans and the Agencies' line of credit for the years ended June 30, 2010 and 2009 was \$447,967 and \$494,774, respectively.

SUPPLEMENTARY INFORMATION

MARRAKECH, INC.

Consolidated Supporting Schedule of Operating Revenue

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Department of Developmental Services	\$ 16,499,296	\$ 16,086,774
Department of Social Services Room and Board	3,378,577	3,405,833
Caring revenue	20,354	20,601
Rental revenue	271,724	226,351
ABI revenue	1,967,599	2,440,597
BESB revenue	288,006	291,795
DMHAS	2,739,399	2,661,480
DCF Work/Learn and Children Services programs	1,605,501	1,583,693
HSTP revenue	450,395	314,019
BRS revenue	446,848	334,743
Other revenue	<u>418,728</u>	<u>341,588</u>
	<u>\$ 28,086,427</u>	<u>\$ 27,707,474</u>

MARRAKECH, INC.

Consolidated Supporting Schedule of Non-Salary

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Rent	\$ 374,289	\$ 545,118
Utilities	656,317	693,231
Food and household supplies	341,311	396,411
Plant maintenance and repairs	313,506	298,014
Depreciation and amortization	623,884	633,474
Professional fees	179,919	128,693
Interest	447,967	494,774
Property taxes	117,938	127,168
Transportation	830,250	802,946
Consultants	891,490	710,122
Insurance	354,056	316,124
Advertising	61,807	68,659
Program supplies	260,596	278,401
Medical supplies	66,042	81,372
Equipment expenses	282,286	281,495
Training	152,875	145,861
Dues, fees, licenses	22,394	23,740
Miscellaneous	<u>368,564</u>	<u>561,641</u>
	<u>\$ 6,345,491</u>	<u>\$ 6,587,244</u>

MARRAKECH, INC.

Consolidated Supporting Schedule of Employee Benefits

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
FICA	\$ 1,301,473	\$ 1,297,629
Health insurance benefits	1,286,404	1,285,110
Unemployment insurance	368,583	142,166
Workers' compensation insurance	472,260	323,976
Miscellaneous	31,960	74,130
Pension expense	<u>512,563</u>	<u>519,626</u>
	<u>\$ 3,973,243</u>	<u>\$ 3,642,637</u>

MARRAKECH, INC.

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2010

State Grantor Pass-Through Grantor <u>Program Title</u>	<u>State CORE - CT Number</u>	<u>Expenditures</u>
Department of Developmental Services:		
Community Living Arrangements	11000-DDS50000-16122	\$ 7,719,805
Community Training Home Support	11000-DDS50000-16122	243,915
Supported Living Arrangements	11000-DDS50000-16122	3,311,901
Day Services	11000-DDS50000-16108	3,424,876
Fee for Service (waiver)	11000-DDS50000-unknown	1,534,981
Department of Mental Health and Addiction Services:		
Mental Health Service Grants	11000-MHA53000-16053	322,619
Employment Opportunities	11000-MHA53000-16070	583,116
Discharge and Diversion Services	11000-MHA53000-12330	30,029
DDAP Computer Conversion St	11000-MHA53000-22049	1,500
Special Population	11000-MHA53000-12250	1,804,131
Department of Social Services:		
Bureau of Rehabilitation Services	11000-DSS60771-16004	255,273
Department of Labor:		
Passed-through Northwest Regional Workforce Investment Board, Waterbury, Connecticut:		
Jobs First Employment Service	11000-DOL40000-12212	104,643
Passed-through Workforce Alliance, New Haven, Connecticut:		
Jobs First Employment Service	11000-DOL40000-12212	45,899
Board of Education and Services for the Blind:		
Enhanced Employment Opportunities	Unknown-12301	146,676
Vocational Services	Unknown-30056	87,760
Vocational Services	Unknown-35149	6,526
Department of Children & Families:		
Work Learn Program	1100-DCF91110-16135	390,000
Work Learn Program	1100-DCF91110-16120	<u>368,025</u>
Total State Financial Assistance		<u>\$20,381,675</u>

See notes to schedule.

MARRAKECH, INC.

Notes to the Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2010

Various departments and agencies of the State of Connecticut have provided financial assistance to Marrakech, Inc., Marrakech Housing Options, Inc., Marrakech Day Services, Inc. and Marrakech Residential Services, Inc. through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including Community Living Arrangements, Day Services, Family Support Services, Respite Services and General Assistance.

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Marrakech, Inc., Marrakech Housing Options, Inc., Marrakech Day Services, Inc. and Marrakech Residential Services, Inc. conform to generally accepted accounting principles as applicable to not-for-profit agencies. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of accounting

The financial statements contained in Marrakech, Inc.'s, Marrakech Housing Options, Inc.'s, Marrakech Day Services, Inc.'s and Marrakech Residential Services, Inc.'s annual audit report are prepared on the modified accrual basis of accounting. The following is a summary of such basis:

- Revenues are recognized when earned.
- Expenditures are recorded when incurred.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

SUPPLEMENTARY REPORTS



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Marrakech, Inc.:

We have audited the consolidated financial statements of Marrakech, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated January 7, 2011. In our report, our opinion on the financial statements was qualified because as discussed in Note 6 to the financial statements, the Organization has excluded the effects of lease obligations from property and debt in the accompanying consolidated statement of financial position. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marrakech, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marrakech, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marrakech, Inc.'s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the audit committee, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Guilmartin DiPiro & Sokolowski, LLC

Middletown, Connecticut
January 7, 2011



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT**

The Board of Directors
Marrakech, Inc.:

Compliance

We have audited Marrakech, Inc.'s compliance with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that could have a direct and material effect on each of Marrakech, Inc.'s major state programs for the year ended June 30, 2010. The major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of Marrakech, Inc.'s management. Our responsibility is to express an opinion on Marrakech, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about Marrakech, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Marrakech, Inc.'s compliance with those requirements.

In our opinion, Marrakech, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Marrakech, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered Marrakech, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act, 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 Marrakech, Inc.'s internal control over compliance.

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the Office of Policy and Management, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Guelsman, DiPa + Sokolowski, LLC

Middletown, Connecticut
January 7, 2011

MARRAKECH, INC.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2010

1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Qualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act?

Yes No

The following schedule reflects the major programs included in the audit:

<u>State Grantor and Program</u>	<u>State CORE - CT Number</u>	<u>Expenditures</u>
Department of Developmental Services:		
Community Living Arrangements	11000-DDS50000-16122	\$7,719,805
Community Training Home Support	11000-DDS50000-16122	243,915
Supported Living Arrangements	11000-DDS50000-16122	3,311,901
Day Services	11000-DDS50000-16108	3,424,876
Fee for Service (waiver)	11000-DDS50000-unknown	1,534,981
Department of Mental Health and Addiction Services:		
Employment Opportunities	11000-MHA53000-16070	583,116
Special Population	11000-MHA53000-12250	1,804,131

Dollar threshold used to distinguish between type A and type B programs: \$407,634

2. FINANCIAL STATEMENT FINDINGS

- We issued reports, dated January 7, 2011, 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*.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated no significant deficiencies.

3. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported relating to State Financial Assistance Programs.