

**MARRAKECH, INC.
MARRAKECH RESIDENTIAL SERVICES, INC.
MARRAKECH HOUSING OPTIONS, INC.
MARRAKECH DAY SERVICES, INC.**

Audited Combining Financial Statements

June 30, 2008

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

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INDEPENDENT AUDITOR'S REPORT



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Marrakech, Inc., Marrakech Residential Services, Inc.,
Marrakech Housing Options, Inc. and Marrakech Day Services, Inc.:

We have audited the accompanying combining statement of financial position of Marrakech, Inc., Marrakech Residential Services, Inc., Marrakech Housing Options, Inc. and Marrakech Day Services, Inc., (non-profit organizations referred to as the Company) as of June 30, 2008, and the related combining statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organizations' 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 11 of the combining financial statements, the organizations have excluded the effects of CIL Realty, Inc. lease obligations from property and debt in the accompanying combining 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 combining statement of financial position.

In our opinion, except for the effect of the lease obligations on the combining statement of financial position as explained in the preceding paragraph, the combining financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of June 30, 2008 and the changes in their net assets and their cash flows for the year 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 December 16, 2008 on our consideration of the Company'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 combining financial statements of the Company 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 combining 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 combining financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combining financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combining financial statements taken as a whole.

Guilmartin DiPiro + Sokolowski, LLC

Middletown, Connecticut
December 16, 2008

FINANCIAL STATEMENTS

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

Combining Statement of Financial Position

June 30, 2008

	Marrakech, Inc.	Marrakech Housing Options, Inc.	Marrakech Day Services, Inc.	Marrakech Residential Services, Inc.	Intercompany Eliminations	Combined Companies
Assets						
Current assets:						
Cash	\$ 1,815,212	\$ 1,758	\$ 156,522	\$ 106	\$ -	\$ 1,973,598
Accounts receivable, net of allowance for doubtful accounts of \$218,299	1,179,156	941,969	88,830	202,537	-	2,412,492
Prepaid expenses	175,889	-	-	-	-	175,889
Total current assets	<u>3,170,257</u>	<u>943,727</u>	<u>245,352</u>	<u>202,643</u>	<u>-</u>	<u>4,561,979</u>
Fixed assets:						
Fixed assets, net of accumulated depreciation of \$3,976,263	9,475,039	697,411	65,028	67,554	-	10,305,032
Other assets:						
Due from related organizations	1,792,906	-	637,012	-	(2,429,918)	-
Due from Whalley Housing Services, Inc.	1,186,489	-	-	-	-	1,186,489
Other assets	32,578	-	-	-	-	32,578
Total other assets	<u>3,011,973</u>	<u>-</u>	<u>637,012</u>	<u>-</u>	<u>(2,429,918)</u>	<u>1,219,067</u>
	<u>\$ 15,657,269</u>	<u>\$ 1,641,138</u>	<u>\$ 947,392</u>	<u>\$ 270,197</u>	<u>\$ (2,429,918)</u>	<u>\$ 16,086,078</u>
Liabilities and Net Assets						
Current liabilities:						
Current portion of long-term debt	\$ 1,108,120	\$ -	\$ -	\$ 2,547	\$ -	\$ 1,110,667
Accounts payable	564,409	-	-	-	-	564,409
Accrued liabilities	2,543,034	4,046	1,202	-	-	2,548,282
Due to grantors	131,691	2,278	301,512	206,673	-	642,154
Deferred revenue	104,600	383,287	141,753	-	-	629,640
Total current liabilities	<u>4,451,854</u>	<u>389,611</u>	<u>444,467</u>	<u>209,220</u>	<u>-</u>	<u>5,495,152</u>
Long-term liabilities:						
Mortgages payable, less current portion	6,123,187	-	-	-	-	6,123,187
Loans payable, less current portion	848,648	-	-	11,908	-	860,556
Due to related organizations	-	1,811,128	-	618,790	(2,429,918)	-
Due to HRS	30,136	-	-	-	-	30,136
Total long-term liabilities	<u>7,001,971</u>	<u>1,811,128</u>	<u>-</u>	<u>630,698</u>	<u>(2,429,918)</u>	<u>7,013,879</u>
Total liabilities	<u>11,453,825</u>	<u>2,200,739</u>	<u>444,467</u>	<u>839,918</u>	<u>(2,429,918)</u>	<u>12,509,031</u>
Net assets (deficit):						
Unrestricted net assets	3,411,826	(595,683)	458,754	(569,721)	-	2,705,176
Temporarily restricted	791,618	36,082	44,171	-	-	871,871
Total net assets (deficit)	<u>4,203,444</u>	<u>(559,601)</u>	<u>502,925</u>	<u>(569,721)</u>	<u>-</u>	<u>3,577,047</u>
Total liabilities and net assets	<u>\$ 15,657,269</u>	<u>\$ 1,641,138</u>	<u>\$ 947,392</u>	<u>\$ 270,197</u>	<u>\$ (2,429,918)</u>	<u>\$ 16,086,078</u>

See accompanying notes to combining financial statements.

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Combining Statement of Activities

For the year ended June 30, 2008

	Marrakech Housing Options, Marrakech, Inc.	Marrakech Day Services, Inc.	Marrakech Residential Services, Inc.	Intercompany Eliminations	Combined Companies	
<u>Change in Unrestricted Net Assets</u>						
Revenue and other support:						
Operating revenue	\$ 11,584,896	\$ 15,395,577	\$ 2,693,661	\$ 2,136,853	\$ (4,470,013)	\$ 27,340,974
Donations and fundraising	167,033	-	-	-	-	167,033
In-Kind support	49,022	-	-	-	-	49,022
Interest income	11,178	-	-	-	-	11,178
Net assets released from restrictions	16,837	14,768	3,807	-	-	35,412
Total unrestricted revenue and other support	<u>11,828,966</u>	<u>15,410,345</u>	<u>2,697,468</u>	<u>2,136,853</u>	<u>(4,470,013)</u>	<u>27,603,619</u>
Operating expenses:						
Salary	5,705,811	9,061,546	1,423,375	1,180,107	-	17,370,839
Non-salary	3,710,026	2,880,617	661,255	466,778	(1,511,314)	6,207,362
Administrative and general	661,628	1,756,273	301,347	239,451	(2,958,699)	-
Employee benefits	1,234,690	1,877,503	293,038	238,773	-	3,644,004
Total operating expenses	<u>11,312,155</u>	<u>15,575,939</u>	<u>2,679,015</u>	<u>2,125,109</u>	<u>(4,470,013)</u>	<u>27,222,205</u>
Increase (decrease) in unrestricted net assets	516,811	(165,594)	18,453	11,744	-	381,414
Unrestricted net assets (deficit), beginning of year	<u>2,895,015</u>	<u>(430,089)</u>	<u>440,301</u>	<u>(581,465)</u>	<u>-</u>	<u>2,323,762</u>
Unrestricted net assets (deficit), end of year	<u>\$ 3,411,826</u>	<u>\$ (595,683)</u>	<u>\$ 458,754</u>	<u>\$ (569,721)</u>	<u>\$ -</u>	<u>\$ 2,705,176</u>
<u>Change in Temporarily Restricted Net Assets</u>						
Net assets released from restrictions	\$ (16,837)	\$ (14,768)	\$ (3,807)	\$ -	\$ -	\$ (35,412)
(Decrease) in temporarily restricted net assets	<u>(16,837)</u>	<u>(14,768)</u>	<u>(3,807)</u>	<u>-</u>	<u>-</u>	<u>(35,412)</u>
Net assets, beginning of year	<u>808,455</u>	<u>50,850</u>	<u>47,978</u>	<u>-</u>	<u>-</u>	<u>907,283</u>
Temporarily restricted net assets, end of year	<u>\$ 791,618</u>	<u>\$ 36,082</u>	<u>\$ 44,171</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 871,871</u>
Total change in net assets	<u>\$ 499,974</u>	<u>\$ (180,362)</u>	<u>\$ 14,646</u>	<u>\$ 11,744</u>	<u>\$ -</u>	<u>\$ 346,002</u>

See accompanying notes to combining financial statements.

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Combining Statement of Cash Flows

For the year ended June 30, 2008

	Marrakech, Inc.	Marrakech Housing Options, Inc.	Marrakech Day Services, Inc.	Marrakech Residential Services, Inc.	Combined Companies
Cash flows from operating activities:					
Change in net assets	\$ 499,974	\$ (180,362)	\$ 14,646	\$ 11,744	\$ 346,002
Adjustments to reconcile net income to net cash provided (used) by operating activities:					
Depreciation and amortization	355,321	196,752	19,246	22,518	593,837
Decrease (increase) in accounts receivable	101,821	123,931	(2,581)	97,668	320,839
Decrease in prepaid assets	57,805	-	-	-	57,805
Decrease in other assets	2,924	-	-	-	2,924
(Decrease) in accounts payable	(10,925)	-	-	-	(10,925)
Increase (decrease) in accrued liabilities	441,176	(310)	(12,152)	-	428,714
Increase (decrease) in due to grantors	11,691	(6,215)	79,226	206,673	291,375
(Increase) in due from others	(844,237)	-	-	-	(844,237)
(Decrease) in due to others	(11,785)	-	-	-	(11,785)
(Decrease) increase in deferred revenue	(162,691)	27,123	(109,538)	-	(245,106)
Total adjustments	(58,900)	341,281	(25,799)	326,859	583,441
Net cash provided (used) by operating activities	441,074	160,919	(11,153)	338,603	929,443
Cash flows from investing activities:					
Cash payments for the purchase of property	(355,199)	(169,096)	-	-	(524,295)
Transfer of assets to related party	40,011	-	-	-	40,011
Net cash provided (used) by investing activities	(315,188)	(169,096)	-	-	(484,284)
Cash flows from financing activities:					
Decrease in due from related party	166,719	-	157,506	-	324,225
(Decrease) increase in due to related party	-	9,685	-	(333,910)	(324,225)
Proceeds of line of credit	7,075,000	-	-	-	7,075,000
Proceeds from issuance of debt and leases	64,327	-	-	-	64,327
Repayment of line of credit	(6,525,000)	-	-	-	(6,525,000)
Principal payments on loans and capital leases	(558,935)	-	-	(4,587)	(563,522)
Net cash provided (used) by financing activities	222,111	9,685	157,506	(338,497)	50,805
Net increase in cash and equivalents	347,997	1,508	146,353	106	495,964
Cash and cash equivalents, beginning of year	1,467,215	250	10,169	-	1,477,634
Cash and cash equivalents, end of year	\$ 1,815,212	\$ 1,758	\$ 156,522	\$ 106	\$ 1,973,598
Supplemental disclosures					
Cash paid during the period for:					
Interest expense	\$ 453,504	\$ 57,305	\$ 3,015	\$ 4,819	\$ 518,643

See accompanying notes to combining financial statements.

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

Notes to Combining Financial Statements

June 30, 2008

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The combining financial statements include the accounts of Marrakech, Inc., Marrakech Residential Services, Inc., Marrakech Housing Options, Inc. and Marrakech Day Services, Inc. Significant intercompany accounts and transactions have been eliminated on the combining statement of financial position, combining statement of activities and combining statement of cash flows.

Accounting principles generally accepted in the United States of America require the combining of entities that have common control and an economic interest in one another.

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

Nature of activities

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

Marrakech Residential Services, Inc. and Marrakech Housing Options, 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 handicapped 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 combining financial statements of the Agencies have been prepared on the accrual basis of accounting.

Tax-exempt 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).

Financial statement presentation

The Agencies' combining financial statements have been prepared according to Statement of Financial Accounting Standards (SFAS), No. 117, *Financial Statements of Not For Profit Organizations*.

Net asset categories

To ensure observance of limitations and restrictions placed on the use of resources available to the Agencies, the accounts 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 by grant-in-aid bonding obtained through various state agencies. The Agencies must utilize the respective properties to which these contributions or grants pertain in 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, 2008, there are temporarily restricted net assets of \$871,871.

Grants and contracts

Grants and contracts are generally considered to be exchange transactions in which the grantor or contractor requires the performance of specified activities. Grants are reported under unrestricted net assets as defined above.

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

Notes to Combining Financial Statements, Continued

Economic dependency

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). The economic viability of the Agencies is dependent on continuing to receive funding from those agencies. A significant reduction in the level of this support, if it were to occur, could have a major effect on the Agencies' ability to continue as ongoing concerns.

Cash equivalents

For purposes of the combining statement of cash flows, the Agencies consider all highly liquid accounts with an original maturity of three months or less as cash equivalents. For the year ended June 30, 2008, Marrakech, Inc. had cash equivalents of \$210,301 which consisted of two Certificates of Deposit with local banks.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fixed assets and depreciation

The Agencies follow the practice of capitalizing at cost all expenditures for fixed assets 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.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions.

Support that is restricted by a donor is reported as an increase in unrestricted net assets if the donation is utilized for its restricted purposes in the reporting period in which the support is recognized. All other donor restricted support is recorded as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a 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 combining statement of activities as net assets released from restriction, as described under "Net asset categories - temporarily restricted."

NOTE 2

THIRD-PARTY REIMBURSEMENT

Amounts received under state reimbursement agreements are subject to examination and retroactive adjustment by third-party payors. Any such adjustments could have a material effect on the financial position of the Agencies.

NOTE 3

CONCENTRATION OF CREDIT RISK

The Agencies maintain their cash balances within various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 as of the date of these financial statements. Such deposits at times have exceeded federal depository insurance limits, however, the Agencies have not experienced any losses in this area and management believes its cash deposits are not subject to significant credit risk.

A substantial portion of the Agencies' revenue is derived from cost reimbursement state contracts. Such funds are deemed to be earned and reported as revenues when the Agencies have incurred expenses in compliance with the specific contracts. Receivables are established to the extent costs have been incurred under the contracts but not reimbursed.

Because grants are evidenced by signed contracts with governments and other agencies, management believes there is nominal credit risk associated with these amounts and, therefore, no allowance for doubtful accounts is considered necessary.

NOTE 4

PROFIT SHARING 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. A total of \$519,950 has been accrued as a contribution to the plan for the year ended June 30, 2008.

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Notes to Combining Financial Statements, Continued

NOTE 5

FIXED ASSETS

Fixed assets at June 30, 2008 consist of the following:

<u>Fixed Assets</u>	<u>Life in Years</u>	<u>Cost</u>
Furniture and equipment	5-25	\$ 1,038,453
Transportation equipment	3-5	2,115,823
Buildings, land and improvements	30	<u>11,127,019</u>
		14,281,295
Less: accumulated depreciation		<u>3,976,263</u>
Net fixed assets		<u>\$10,305,032</u>

Depreciation expense was \$593,837 for the year ended June 30, 2008.

The carrying amount of property included above which is under construction as of June 30, 2008 and not being depreciated is \$293,558.

NOTE 6

RELATED PARTY TRANSACTIONS AND INTER-COMPANY ELIMINATIONS

In 1991, the Board of Directors of Marrakech, Inc. formed three sister corporations, Marrakech Residential Services, Inc., Marrakech Day Services, Inc. and Marrakech Housing Options, Inc.

Marrakech Residential Services, Inc. operates and manages residential programs licensed as Intermediate Care Facilities (ICF-MR's). Marrakech Housing Options, Inc. operates and manages residential programs licensed as Community Living Arrangements (CLA's), Supported Living Arrangements (SLA's) and day programs funded by the Department of Developmental Services. Marrakech Day Services, Inc. provides day programs funded primarily by the Department of Mental Health and Addiction Services.

Marrakech, Inc., Marrakech Housing Options, Inc., Marrakech Residential Services, Inc. and Marrakech Day Services, Inc. rent residential and day program space from Marrakech, Inc. at a rate equal to Marrakech, Inc.'s costs.

Rent expense for each of the programs was as follows for the year ended June 30, 2008:

Hurd Road	\$ 31,867
Knollwood Drive	30,191
Ramsdell Street	9,830
Orange Crest	42,584
Branford House	30,605
Cortina Road	34,822
Stevenson Road	33,516
Lake Street	35,040
View Terrace	23,227
Englewood Drive	21,812
East Street	44,791
524-526 Whalley Avenue	122,397
Lunar Drive	145,986
Anton Circle	37,961
County Road	38,301
Migeon Street	12,994
Osborn Avenue	15,431
514-520 Whalley Avenue	2,763
Island Lane	231,030
Meetinghouse Hill Road	19,171
Talmadge Hill Road	47,663
106 Sherman	27,974
Sherman/Gilbert	82,191
Kreger Drive	10,341
Plainville	1,872
East Main, Bridgeport	15,618
New Milford	<u>18,554</u>
Total rent expense	<u>\$1,168,532</u>

Administrative and general expenses are allocated to various cost centers through a management fee charge. Management fees were charged to the various cost centers of Marrakech, Inc., Marrakech Housing Options, Inc., Marrakech Residential Services, Inc. and Marrakech Day Services, Inc. in the amounts of \$661,628, \$1,756,273, \$239,451 and \$301,347, respectively, for a total of \$2,958,699 for the year ended June 30, 2008.

Maintenance fees are allocated to various cost centers through a maintenance fee charge. Maintenance fees totaling \$342,782 were charged to Marrakech, Inc., Marrakech Residential Services, Inc., Marrakech Housing Options, Inc. and Marrakech Day Services, Inc.

The corresponding income and expenses have been eliminated within the accompanying combining financial statements as they relate to intercompany rents, management fees and maintenance fees.

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Notes to Combining Financial Statements, Continued

The Whalley Avenue Housing II Condominium Association, Inc.

As part of its mission to provide affordable housing, Marrakech sought and received funding to renovate an existing 3-family dwelling it owned at 514 Whalley Avenue, New Haven, Connecticut (and a portion of the adjacent property) into six affordable housing units.

The U.S. Department of Housing and Urban Development (HUD), the primary project funding source, requires that the housing units be legally encapsulated in a single-asset corporation. To accommodate this requirement, Whalley Avenue Housing II, Inc., a Connecticut not-for-profit, non-stock corporation, was formed.

Because two of the new residential units were to be constructed on upper levels of the adjacent property, which is co-owned by Marrakech and zoned for use in commercial activities, the encapsulation required by HUD had to be accomplished through a condominium structure. Accordingly, on September 27, 2007, the Whalley Avenue Housing II Condominium Association, Inc. was organized as a

Connecticut non-stock corporation. Of the eleven planned units, five are to be commercial and six residential. They will be owned, respectively, by Marrakech, Inc. and Whalley Avenue Housing II, Inc. who shall be responsible for electing the Association's governing body.

As of June 30, 2008, construction costs for the residential portion of the project's development had been substantially advanced by Marrakech, Inc. Marrakech also transferred, at depreciated cost, the value of the existing residential units on its books in addition to \$50,000 that had been received in a prior year towards the renovation project to Whalley Avenue Housing II, Inc.

The project was substantially completed on October 29, 2008 and Marrakech expects to be reimbursed all amounts advanced on behalf of Whalley Avenue Housing II, Inc., during the second half of fiscal year June 2009, through proceeds of commitments received for funding by various funding sources secured by Whalley Avenue Housing II and from their proceeds of the final closing on the project with HUD. As of June 30, 2008, a total of \$1,065,800 was owed to Marrakech Inc.

NOTE 7

LOANS PAYABLE

At June 30, 2008, the Agencies had loans payable as follows:

Corporation for Independent Living:

Demand note payable to CIL Realty, Inc. (CIL). This note is secured by all of the Agencies' contract rights and accounts receivable related to the Englewood Drive and Knollwood Drive group homes. Assuming that the Agencies are in compliance with all terms and covenants of the loan and realty leases with CIL, the principal of such loan will be forgiven when the associated group homes are donated to Marrakech, Inc. The homes are scheduled to be donated when their corresponding realty leases expire, which will be September 2009 for the Englewood group home and February 2010 for the Knollwood group home. This loan has been classified as a long-term liability.

\$138,000

Working capital installment loan; collateralized by accounts receivable; payable monthly at \$486 including principal and interest at 8.5% per annum; due June 30, 2016.

33,548

People's United Bank:

On August 25, 2006, Marrakech refinanced two prior People's United Bank demand loans of \$121,276 and \$141,800 with an 8.45% per annum fixed rate note of \$263,076, repayable in equal monthly principal installments of \$4,385 plus interest through September 2011. This action was necessitated due to the commencement of scheduled 20% per annum reductions in the guarantees provided by the Connecticut Development Authority on the predecessor loans. At the date of refinance, the note was 60% guaranteed by the Connecticut Development Authority and secured by various non real estate assets of Marrakech's two group homes located at 20 Cortina Road, East Haven, Connecticut and 470 Stevenson Road, New Haven, Connecticut. As additional security, to compensate for the reduced Connecticut Development Authority's guarantees, Marrakech was also required to open and assign a \$100,000 certificate of deposit at People's United Bank.

166,615

State of Connecticut:

Various revolving loan funds with monthly installments currently totaling \$2,332 including principal and interest at an interest rate of 6% per annum; due dates ranging from July 2010 to October 2018.

101,217

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Notes to Combining Financial Statements, Continued

Loans payable, continued

JP Morgan Chase Bank:

Two loans collateralized by automobiles with monthly installments of \$432 and \$482 currently totaling \$914 including principal and interest at interest rates of 6.64% and 6.83%, respectively, per annum with due dates of May 2012 and March 2012, respectively.

\$ 36,204

Toyota Credit Corp.:

Loan collateralized by vehicle with monthly payments of \$514, including principal and interest at 6.96% per annum; due March 2013.

24,883

Wachovia Bank:

On July 23, 2003, Marrakech, Inc. entered into a standby term loan agreement permitting it to borrow up to \$500,000 to finance the acquisition of vehicles and other items of personal property. As of the agreement expiration date in July 2004, three loans had been termed out under this arrangement as follows:

<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>6/30/08</u>	<u>Monthly</u> <u>Payment</u>	<u>Date</u> <u>Due</u>
5.25	\$ 7,094	\$2,535	10/08
5.25	11,694	1,956	01/09
4.75	19,139	2,156	03/09

Each loan is secured by a perfected first lien interest in the property acquired by the agencies.

37,927

New Alliance Bank:

On December 23, 2005, Marrakech, Inc. entered into a commercial term loan agreement for the purpose of financing the acquisition of vehicles and other items of personal property. A single loan of \$496,096 was taken under this arrangement which is being repaid in monthly principal and interest installments of \$9,867 through November 2010. The interest rate is fixed at 7.01%. The loan is secured by a first lien interest in the Agency's property acquired.

250,021

On May 11, 2007, Marrakech, Inc. entered into a commercial term loan agreement for the purpose of financing the acquisition of vehicles and other items of personal property and for general corporate purposes. A single loan of \$487,690 was taken under this arrangement which is being repaid in monthly principal and interest installments of \$9,680 through May 2012. The interest rate is fixed at 7.07%. The loan is secured by a first lien interest in the Agency's property acquired.

388,336

General Motors Acceptance Corp.:

Two loans collateralized by automobiles with monthly installments currently totaling \$1,134 including principal and interest at 9.15% each per annum; both loans are due November 2009.

17,020

Citizens Bank:

A revolving line of credit of \$1,000,000 guaranteed by each agency. Advances on this line of credit are payable on demand and bear interest at a variable rate under the note agreement. The interest rate at June 30, 2008 was 6% per annum. The agreement expires on February 28, 2009.

550,000

1,743,771

883,215

Less: current maturities

Total long-term loans payable

\$ 860,556

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Notes to Combining Financial Statements, Continued

Loans payable, continued

At June 30, the aggregate maturities of long-term loans payable for each of the next five years ending June 30 are:

2009	\$883,215
2010	302,470
2011	229,139
2012	138,372
2013	20,647

NOTE 8

MORTGAGES PAYABLE

At June 30, 2008, Marrakech, Inc. had mortgages payable as follows:

Citizens Bank:

Mortgage payable; collateralized by property located at 6 Lunar Drive, Woodbridge, Connecticut; payable monthly at \$2,880 including principal and interest at 5.9% per annum; due May 2012. The note specifies that interest is at a variable rate and may be adjusted every three years based on certain yields under United States Treasury Securities added to a base rate of 3.5%. \$109,833

Mortgage payable; collateralized by property located at 514-526 Whalley Avenue, New Haven, Connecticut; payable monthly at \$2,844 including principal and interest at 6.5% per annum; due September 2010. 285,664

CCO Mortgage Corp.:

Mortgage payable; collateralized by property located at 106-108 Hobart Street, New Haven, Connecticut; payable monthly at \$484 including principal and interest at 6.5% per annum; due September 2031. 69,492

Mortgage payable; collateralized by property located at 615-617 Whalley Avenue, New Haven, Connecticut; payable monthly at \$338 including principal and interest at 8.25% per annum; due August 1, 2030. 41,226

Mortgage payable; collateralized by property located at 60 Plainfield Avenue, West Haven, Connecticut; payable monthly at \$270 including principal and interest at 8.25% per annum; due July 2030. 32,938

Mortgage payable; collateralized by property located at 106-108 Sherman Avenue, New Haven, Connecticut; payable monthly at \$903 including principal and interest at 4.25% per annum; due May 2018. 87,535

Mortgage payable; collateralized by property located at 158R Meetinghouse Hill Road, Durham, Connecticut; payable monthly at \$1,416 including principal and interest at 5.5% per annum; due March 1, 2036. 241,476

Mortgage payable; collateralized by property located at 27-29 Robbins Street, Waterbury, Connecticut; payable monthly at \$1,151 including principal and interest at 5.625% per annum; due May 1, 2036. 194,342

Mortgage payable; collateralized by property located at 85 Talmadge Hill Road, Prospect, Connecticut; payable monthly at \$2,395 including principal and interest at 5.875% per annum; due August 2036. 394,876

Mortgage payable; collateralized by property located at 88-90 Sherman Avenue, New Haven, Connecticut; payable monthly at \$1,891 including principal and interest at 5.625% per annum; due November 2036. 321,154

Mortgage payable; collateralized by property located at 25 Kreger Drive, Wolcott, Connecticut; payable monthly at \$1,917 including principal and interest at 5.625% per annum; due June 2037. 328,240

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Notes to Combining Financial Statements, Continued

Mortgages payable, continued

Connecticut Housing Finance Authority:

Mortgage payable; collateralized by property located at 92 Hurd Road, Trumbull, Connecticut; payable monthly at \$1,734 including principal and interest at 6.63% per annum; due October 2030. \$ 242,256

Mortgage payable; collateralized by property located at 92 View Terrace, East Haven, Connecticut; payable monthly at \$1,740 including principal and interest at 6.63% per annum; due October 2030. 243,120

Mortgage payable; collateralized by property located at 2 Anton Circle, Bridgeport, Connecticut; payable monthly at \$2,425 including principal and interest at 5.75% per annum; due January 2033. 382,498

Mortgage payable; collateralized by property located at County Road, Guilford, Connecticut; payable monthly at \$2,509 including principal and interest at 5.75% per annum; due January 2033. 395,858

Mortgage payable; collateralized by property located at 21 Victor Hill Road, Branford, Connecticut; payable monthly at \$2,017 including principal and interest at 7.34% per annum; due September 2026. 243,077

Mortgage payable; collateralized by property located at 33 Lake Street, West Haven, Connecticut; payable monthly at \$2,343 including principal and interest at 6.93% per annum; due August 2027. 297,664

Wachovia Bank:

Mortgage payable; collateralized by property located at 597 East Street, New Haven, Connecticut; 85% of the loan is guaranteed by the U.S. Small Business Administration; payable monthly at \$1,999 including principal and interest that varies with the published prime rate, currently at 6.66% per annum; due October 2016. 151,472

Mortgage payable; collateralized by property located at 118 Migeon Avenue, Torrington, Connecticut; payable monthly at \$1,242 including principal and interest at 6.25% per annum; due June 2018. 110,165

Mortgage payable; collateralized by property located at 450 Island Lane, West Haven, Connecticut; payable monthly at \$10,957 including principal and interest at 7.15% per annum; due October 2021. 1,121,575

Mortgage payable; collateralized by property located at 615-617 Whalley Avenue, New Haven, Connecticut; payable monthly at \$1,141 including principal and interest at 7.25% per annum; due August 2019. 105,010

State of Connecticut Department of Developmental Services:

Mortgage payable; collateralized by property located at 43 Ramsdell Street, New Haven, Connecticut; payable monthly at \$1,120 including principal and interest at 6% per annum; due February 2018. 99,023

Mortgage payable; collateralized by property located at 159 Osborn Avenue, New Haven, Connecticut; payable monthly at \$1,675 including principal and interest at 6% per annum; due June 2019. 161,404

TD Banknorth:

Mortgage payable; collateralized by property located in Bridgeport, Connecticut at 1041-1043 East Main Street, 1053-1057 East Main Street, 224 Beech Street and 426-436 Arctic Street payable monthly at \$3,210 including principal and interest at 7% per annum due December 2016. 441,588

Community Capital Fund (CCF):

Mortgage payable; collateralized by property located in Bridgeport, Connecticut at 1041-1043 East Main Street, 1053-1057 East Main Street, 224 Beech Street and 426-436 Arctic Street payable monthly at \$1,054 including principal and interest at 3% per annum beginning February 1, 2008. Prior to this, the note called for payments of interest only beginning on February 1, 2007. The note is due in January 2018. 249,153

Less: current maturities 6,350,639
227,452

Total long-term mortgages payable \$6,123,187

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Notes to Combining Financial Statements, Continued

Mortgages payable, continued

At June 30, the aggregate maturities of long-term mortgage obligations for each of the next five years ending June 30 are as follows:

2009	\$227,452
2010	242,385
2011	492,524
2012	239,460
2013	236,220

Interest expense related to the above loans, capital leases and mortgages totaled \$518,643 for the year ended June 30, 2008.

NOTE 9

CASH ADVANCES

Cash totaling \$383,287 was advanced to Marrakech Housing Options, Inc. from the Connecticut Department of Developmental Services (DDS) 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

CONTINGENCIES

Grant-in-aid funds liens

The Department of Social Services currently has a lien on one of the Agencies' properties for \$150,000 for which grant-in-aid funds were advanced for program-related capital improvements. As long as the liened premises continues to be used in the capacity for which the funds were approved, the liability for repayment to the state decreases 10% for each full year of qualified use. As of June 30, 2008, the potential liability has been reduced by 90%.

During the fiscal year ended June 30, 2007, the City of New Haven, Connecticut acquired Marrakech's property at 95 Fitch Street, New Haven, Connecticut through its exercise of eminent domain. This property was subject to a prior grant-in-aid fund lien by the Department of Social Services and the Agency is liable for a percentage of the original funds awarded for renovations to the property, the amount of which is currently under negotiation. Management is also currently negotiating with the Department of Social Services for additional grant-in-aid funds for the property acquired to replace its Fitch Street facilities which will include the consolidation of its liability for its prior award, once settled between the parties. As of June 30, 2008, \$120,000 has been recorded in "Due to grantors" on the combining statement of financial position to recognize this liability.

During the fiscal year ended June 30, 2007, the agency received grant-in-aid funds from the Connecticut Department of Mental Health and Addiction Services totaling \$76,315. These funds were provided for alterations, repairs and improvements for properties located at 106 Sherman Avenue, New Haven, Connecticut and 524-526 Whalley Avenue, New Haven, Connecticut in the amount of \$58,215 and \$18,000, respectively. These facilities must be used for the program related purposes for which the awards were given for ten years under lien agreements made by Marrakech with the State of Connecticut. The contingent liability for repayment of these funds decreases by 10% for each full year of qualified use of the properties.

During the fiscal year ended June 30, 2007, Marrakech acquired property at 1041-1043 and 1053-1057 East Main Street, Bridgeport, Connecticut, subject to obligations related to grant-in-aid funds previously awarded to the seller of the property and a lien in favor of the City of Bridgeport, Connecticut. As part of the purchase of the property, Marrakech had assumed the sellers prior lien on the property of \$389,500 which will expire on June 24, 2012 upon meeting certain conditions of the grantor. These funds are included in temporarily restricted net assets which are discussed in Note 1.

NOTE 11

OPERATING LEASES

Leased facilities

The Agencies conduct a significant part of their operations from leased facilities. Lease commitments include leases which expire at various dates through August 2010 as well as certain leases which are on a month-to-month basis. In most of the leases, the Agencies are required to pay certain annual operating costs such as maintenance and insurance expenses. Total rent expense for the fiscal year ended June 30, 2008 was \$288,298. Capital leases with CIL Realty, Inc. are discussed subsequently.

At June 30, 2008 minimum rental payments due under operating leases for facilities for the next five years ended June 30 consist of the following:

2009	\$174,452
2010	69,891
2011	11,705
2012	-
2013	-

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Notes to Combining Financial Statements, Continued

Leased facilities, continued

Marrakech, Inc. leases five homes from CIL Realty, Inc. for a lease term of 25 years. The minimum future rental commitments under these leases total \$870,660 as follows:

2009	\$142,763
2010	114,433
2011	95,400
2012	95,400
2013	<u>95,400</u>
	543,396
Thereafter	<u>327,264</u>
	<u>\$870,660</u>

On January 1, 1988, the leases for Englewood Drive and Knollwood Drive residential properties were amended. The amendments extended each lease term to 25 years and stated that the respective properties under each lease agreement shall be donated to Marrakech, Inc. at the end of each respective lease term. The Orange Crest, Cortina Road and Stevenson Road property leases were written with the same terms at later dates. In order for the properties to be donated, Marrakech, Inc. must be in compliance with the terms of the lease. Accounting principles generally accepted in the United States of America require "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."

However, it is the opinion of management that because of the tentative nature of the licensing arrangement of Marrakech, Inc., it may be misleading to show the properties as capital assets as required by accounting principles generally accepted in the United States of America. **Consequently, they have been recorded as operating leases in the accompanying combining financial statements.**

Accounting principles generally accepted in the United States of America require that certain disclosures of lessee obligations be made. The following disclosure shows the effect on the combining statement of financial position and the combining statement of activities if the leased properties were capitalized by Marrakech, Inc. (See diagram 11.1.)

**NOTE 12
COST SETTLEMENT**

Funding for direct service costs for Marrakech Housing Options, Inc.'s program is provided by the State Department of Developmental Services (DDS). According to State regulations, a cost settlement process will occur after the end of the year during which the Agency will be required to return 50% of the funds that were not used during the year to DDS.

Management has estimated a \$0 payback to DDS for the year ended June 30, 2008.

**NOTE 13
COMPENSATED ABSENCES**

The Agencies have a policy that enables employees to accumulate paid time off and carry it forward to the next fiscal year, thereby increasing benefits available in the following year. At June 30, 2008, \$318,009 was accrued for compensated absences.

Diagram 11.1

<u>Residence</u>	<u>Cumulative Effect on Statement of Financial Position</u>			<u>Effect on Current Year Statement of Activities</u>			
	Net Increase in Property & Equipment	Increase in Debt	Increase (Decrease) in Net Assets	Decrease in Rent	Increase in Depreciation	Increase in Interest	Increase in Net Assets
Englewood Drive	\$ 69,020	\$ 19,634	\$ 49,386	\$ 20,625	\$ 6,074	\$ 3,161	\$11,390
Knollwood Drive	94,802	50,560	44,242	26,735	8,261	6,020	12,454
Cortina Road	189,250	186,218	3,032	32,280	10,499	17,076	4,705
Orange Crest	152,799	160,127	(7,328)	34,014	9,500	18,476	6,038
Stevenson Road	<u>203,103</u>	<u>190,839</u>	<u>12,264</u>	<u>29,100</u>	<u>9,922</u>	<u>16,087</u>	<u>3,091</u>
Totals	<u>\$708,974</u>	<u>\$607,378</u>	<u>\$101,596</u>	<u>\$142,754</u>	<u>\$44,256</u>	<u>\$60,820</u>	<u>\$37,678</u>

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

Supporting Schedule of Operating Revenue

For the year ended June 30, 2008

	Marrakech		Marrakech		Intercompany Eliminations	Combined Companies
	Marrakech, Inc.	Housing Options, Inc.	Marrakech Day Services, Inc.	Marrakech Residential Services, Inc.		
Department of Developmental Services	\$ -	\$ 14,207,511	\$ -	\$ -	\$ -	\$ 14,207,511
Department of Social Services	-	1,002,487	-	2,136,853	-	3,139,340
Management fee	2,958,699	-	-	-	(2,958,699)	-
Maintenance fee	342,782	-	-	-	(342,782)	-
Caring revenue	24,215	-	-	-	-	24,215
Rental intercompany	1,168,532	-	-	-	(1,168,532)	-
Rental revenue	220,387	-	39,839	-	-	260,226
Supported employment	4,738,738	-	14,061	-	-	4,752,799
Private pay	1,068,266	183,900	-	-	-	1,252,166
DMHAS	-	-	2,617,859	-	-	2,617,859
DCF Work/Learn	587,941	-	-	-	-	587,941
HSTP revenue	97,270	-	-	-	-	97,270
BRS revenue	290,398	-	-	-	-	290,398
Other revenue	87,668	1,679	21,902	-	-	111,249
Total operating revenue	\$ 11,584,896	\$ 15,395,577	\$ 2,693,661	\$ 2,136,853	\$ (4,470,013)	\$ 27,340,974

SUPPLEMENTARY INFORMATION

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

Supporting Schedule of Non-Salary

For the year ended June 30, 2008

	Marrakech, Inc.	Marrakech Housing Options, Inc.	Marrakech Day Services, Inc.	Marrakech Residential Services, Inc.	Intercompany Eliminations	Combined Companies
Rent	\$ 467,073	\$ 839,389	\$ 343,933	\$ 115,811	\$ (1,168,532)	\$ 597,674
Utilities	362,473	251,654	47,153	42,352	-	703,632
Food and household supplies	23,694	254,023	36,569	48,002	-	362,288
Plant maintenance and repairs	271,184	249,375	5,821	50,919	(342,782)	234,517
Depreciation and amortization	355,321	197,098	19,247	22,518	-	594,184
Professional fees	128,720	8,748	-	-	-	137,468
Interest	453,504	57,305	3,015	4,819	-	518,643
Property taxes	69,957	26,101	-	22,095	-	118,153
Transportation	292,389	450,260	69,362	35,172	-	847,183
Consultants	174,351	172,925	11,465	78,210	-	436,951
Insurance	120,844	150,744	14,805	14,513	-	300,906
Advertising	88,847	1,101	28	-	-	89,976
Program supplies	166,612	124,568	37,462	10,912	-	339,554
Medical supplies	3,975	44,577	1,469	13,428	-	63,449
Equipment expenses	156,006	31,745	56,625	5,029	-	249,405
Training	97,385	8,788	12,479	508	-	119,160
Dues, fees, licenses	17,226	5,971	568	379	-	24,144
Miscellaneous	460,465	6,245	1,254	2,111	-	470,075
Total	\$ 3,710,026	\$ 2,880,617	\$ 661,255	\$ 466,778	\$ (1,511,314)	\$ 6,207,362

Schedule 3

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

Supporting Schedule of Employee Benefits

For the year ended June 30, 2008

	Marrakech, Inc.	Marrakech Housing Options, Inc.	Marrakech Day Services, Inc.	Marrakech Residential Services, Inc.	Combined Companies
FICA	\$ 422,920	\$ 679,565	\$ 105,710	\$ 85,915	\$ 1,294,110
Health insurance benefits	405,681	637,673	99,547	80,729	1,223,630
Unemployment insurance	60,245	96,612	15,221	12,271	184,349
Workers comp. insurance	109,242	175,195	27,265	22,219	333,921
Miscellaneous	66,604	16,611	2,594	2,235	88,044
Pension expense	169,998	271,847	42,701	35,404	519,950
Total	\$ 1,234,690	\$ 1,877,503	\$ 293,038	\$ 238,773	\$ 3,644,004

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2008

State Grantor Pass-Through Grantor <u>Program Title</u>	<u>State CORE - CT Number</u>	<u>Expenditures</u>
Department of Developmental Services (DDS):		
Community Living Arrangements	11000-DMR50000-16122	\$ 7,172,920
Community Training Home Support	11000-DMR50000-16122	82,255
Supported Living Arrangements	11000-DMR50000-16122	3,356,451
Day Services	11000-DMR50000-16108	3,595,885
Department of Mental Health and Addiction Services:		
Psychiatric and Mental Health Services	11000-MHA53000-16053	406,083
Employment Opportunities	11000-MHA53000-16070	185,570
Managed Service System	11000-MHA53000-12157	22,426
Support Program for Shared Populants	11000-MHA53000-90231	1,434,960
Discharge and Diversion Services	11000-MHA53300-12330	17,496
Employment Opportunities	11000-MHA53000-16070	284,834
Department of Social Services:		
Bureau of Rehabilitation Services	11000-DSS60000-16004	116,138
Department of Labor:		
Passed-through Workforce Alliance, New Haven, Connecticut:		
Jobs First Employment Service	11000-DOL40000-12212	36,370
Passed-through Northwest Regional Workforce Investment Board, Waterbury, Connecticut:		
TANF Job Reorganization	11000-DOL40000-12359	97,500
Passed-through The Workplace, Inc., Bridgeport, Connecticut:		
Jobs First Employment Service	11000-DOL40000-12212	36,008
Board of Education and Services for the Blind:		
Enhanced Employment Opportunities	Unknown-12301	233,169
Vocational Rehabilitation	Unknown-16054	2,835
Vocational Services	Unknown-30056	83,095
Vocational Services	Unknown-35149	19,055
Department of Children & Families:		
Work Learn Program	1100-DCF91110-16135	320,000
Judicial Branch, Court Support Services Division:		
Passed-through State of Connecticut Department of Children & Families:		
Work Learn Program	Unknown-90496	<u>103,640</u>
		<u>\$17,606,690</u>

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

Notes to the Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2008

Various departments and agencies of the State of Connecticut have provided financial assistance to Marrakech, Inc., Marrakech Residential Services, Inc., Marrakech Housing Options, Inc. and Marrakech Day 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 Residential Services, Inc., Marrakech Housing Options, Inc. and Marrakech Day 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 Residential Services, Inc.'s, Marrakech Housing Options, Inc.'s and Marrakech Day Services, Inc.'s annual audit report are prepared on the 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., Marrakech Residential Services, Inc.,
Marrakech Housing Options, Inc. and Marrakech Day Services, Inc.:

We have audited the combined financial statements of Marrakech, Inc., Marrakech Residential Services, Inc., Marrakech Housing Options, Inc. and Marrakech Day Services, Inc. (the Company) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. In our report, our opinion on the financial statements was qualified because as discussed in Note 11 to the financial statements, the Organizations have excluded the effects of lease obligations from property and debt in the accompanying combining statement of financial position. Accounting principles generally accepted in the United States of America require that such obligations be included in the combining 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 the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company's financial statements that is more than inconsequential will not be prevented or detected by the Company's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Company's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 the audit committee, management, the Board of Directors, 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.

Guillermo D. P. + Schulman, LLC

Middletown, Connecticut
December 16, 2008



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT

The Board of Directors
Marrakech, Inc., Marrakech Residential Services, Inc.,
Marrakech Housing Options, Inc. and Marrakech Day Services, Inc.:

Compliance

We have audited the compliance of Marrakech, Inc., Marrakech Residential Services, Inc., Marrakech Housing Options, Inc. and Marrakech Day Services, Inc. (the Company) with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that are applicable to each of its major state programs for the year ended June 30, 2008. 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 the Company's management. Our responsibility is to express an opinion on 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 the Company'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 the Company's compliance with those requirements.

In our opinion, the Company complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Company 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 the internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Company's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a state program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the Company's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the Board of Directors, management, 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.

Guilherme D. P. + Sekelawski, LLC

Middletown, Connecticut
December 16, 2008

**MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.**

Schedule of Findings and Questioned Costs

For the year ended June 30, 2008

1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes x No

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ Yes x None reported

- Noncompliance material to financial statements noted?

_____ Yes x No

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified?

_____ Yes x No

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ Yes x 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 x 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 (CLA)	11000-DMR50000-16122	\$7,172,920
Community Training Home Support	11000-DMR50000-16122	82,255
Supported Living Arrangements	11000-DMR50000-16122	3,356,451
Day Services	11000-DMR50000-16108	3,595,885
Department of Mental Health and Addiction Services:		
Psychiatric and Mental Health Services	11000-MHA53000-16053	406,083
Employment Opportunities	11000-MHA53000-16070	185,570
Support Program for Shared Populants	11000-MHA53000-90231	1,434,960
Employment Opportunities	11000-MHA53000-16070	284,834
Department of Social Services:		
Bureau of Rehabilitation Services	11000-DSS60000-16004	116,138
Board of Education and Services for the Blind:		
Enhanced Employment Opportunities	Unknown-12301	233,169
Department of Children & Families:		
Work Learn Program	1100-DCF91110-16135	320,000
Judicial Branch, Court Support Services Division:		
Passed-through State of Connecticut Department of Children & Families:		
Work Learn Program	Unknown-90496	103,640

MARRAKECH, INC., MARRAKECH RESIDENTIAL SERVICES, INC.,
MARRAKECH HOUSING OPTIONS, INC. AND MARRAKECH DAY SERVICES, INC.

Schedule of Findings and Questioned Costs, Continued

2. FINANCIAL STATEMENT FINDINGS

- We issued reports, dated December 16, 2008, 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 related to State Financial Assistance Programs.