

**MARRAKECH, INC.**

**Consolidated Financial Statements  
and Supplementary Information  
with Independent Auditor's Report**

**June 30, 2014 and 2013**

# MARRAKECH, INC.

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**INDEPENDENT AUDITOR'S REPORT**



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Marrakech, Inc.:

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

We have audited the accompanying consolidated financial statements of Marrakech, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marrakech, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Other Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules 1 through 3 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of state financial assistance is also presented for additional analysis as required by the Office of Policy and Management Compliance Supplement to the State Single Audit Act and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015 on our consideration of Marrakech, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marrakech, Inc.'s internal control over financial reporting and compliance.

*Guilmadiu D'Am + Sokolowski, LLC*

Middletown, Connecticut  
January 29, 2015

**FINANCIAL STATEMENTS**

**MARRAKECH, INC.**

**Consolidated Statements of Financial Position**

**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 889,346	\$ 1,093,682
Restricted cash held by bank on deposit as compensating balance	-	500,000
Accounts receivable, net of allowance for doubtful accounts of \$376,000 in 2014 and \$360,000 in 2013	2,674,514	3,533,823
Prepaid expenses	<u>772,802</u>	<u>259,678</u>
Total current assets	<u>4,336,662</u>	<u>5,387,183</u>
Fixed assets:		
Property and equipment, net	<u>14,299,693</u>	<u>14,102,031</u>
Other assets:		
Other assets	<u>74,379</u>	<u>110,814</u>
Total assets	<u>\$ 18,710,734</u>	<u>\$ 19,600,028</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 316,391	\$ 319,597
Accrued liabilities	1,581,734	1,959,434
Due to grantors	446,815	427,441
Deferred revenue, current portion	111,469	114,218
Current portion of mortgages and loans payable	<u>2,359,384</u>	<u>2,416,304</u>
Total current liabilities	<u>4,815,793</u>	<u>5,236,994</u>
Long-term liabilities:		
Mortgages payable, less current portion	7,448,696	7,927,260
Loans payable, less current portion	576,347	386,282
Derivative debt agreements (see Note 6)	288,383	325,750
Deferred revenue, less current portion	154,022	127,170
Cash advance payable	429,909	429,909
Contingent liabilities (see Note 8)	-	-
Total long-term liabilities	<u>8,897,357</u>	<u>9,196,371</u>
Total liabilities	<u>13,713,150</u>	<u>14,433,365</u>
Net assets:		
Unrestricted	4,909,041	4,667,140
Temporarily restricted	<u>88,543</u>	<u>499,523</u>
Total net assets	<u>4,997,584</u>	<u>5,166,663</u>
Total liabilities and net assets	<u>\$ 18,710,734</u>	<u>\$ 19,600,028</u>

See accompanying notes to financial statements.

**MARRAKECH, INC.**

**Consolidated Statements of Activities and Changes in Net Assets**

**For the years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b><u>Changes in Unrestricted Net Assets</u></b>		
Revenue and other support:		
Operating revenue (Schedule 1)	\$ 33,443,189	\$ 32,763,023
Donations and fund-raising	247,685	197,217
Interest income	47	61
Net assets released from restrictions	<u>472,530</u>	<u>36,811</u>
Total unrestricted revenue and other support	<u>34,163,451</u>	<u>32,997,112</u>
Operating expenses:		
Salary	20,459,277	20,221,401
Non-salary (Schedule 2)	8,685,618	7,900,030
Employee benefits (Schedule 3)	<u>4,851,411</u>	<u>4,714,280</u>
Total operating expenses	<u>33,996,306</u>	<u>32,835,711</u>
Change in unrestricted net assets before other income	<u>167,145</u>	<u>161,401</u>
Other income:		
Change in fair value of derivative debt agreements (Note 6)	37,368	195,980
Unemployment tax refunds	<u>37,388</u>	<u>282,864</u>
Total other income	<u>74,756</u>	<u>478,844</u>
Change in unrestricted net assets	241,901	640,245
Unrestricted net assets, beginning of year	<u>4,667,140</u>	<u>4,026,895</u>
Unrestricted net assets, end of year	<u>\$ 4,909,041</u>	<u>\$ 4,667,140</u>
<b><u>Changes in Temporarily Restricted Net Assets</u></b>		
Donations	\$ 61,550	\$ 15,337
Net assets released from restrictions	<u>(472,530)</u>	<u>(36,811)</u>
Change in temporarily restricted net assets	<u>(410,980)</u>	<u>(21,474)</u>
Temporarily restricted net assets, beginning of year	<u>499,523</u>	<u>520,997</u>
Temporarily restricted net assets, end of year	<u>\$ 88,543</u>	<u>\$ 499,523</u>
Total change in net assets	<u>\$ (169,079)</u>	<u>\$ 618,771</u>

See accompanying notes to financial statements.

**MARRAKECH, INC.**

**Consolidated Statements of Cash Flows**

**For the years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	<u>\$ (169,079)</u>	<u>\$ 618,771</u>
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,022,966	964,277
(Increase) in fair value of derivative debt agreements	(37,367)	(195,981)
(Gain) on disposal of assets	(5,726)	(4,576)
Decrease (increase) in accounts receivable	875,053	(744,794)
(Increase) decrease in prepaid expenses	(513,124)	212,009
Decrease in other assets	7,302	149
(Decrease) increase in accounts payable	(3,206)	50,839
(Decrease) increase in accrued liabilities	(377,700)	249,506
Increase (decrease) in due to grantors	19,374	(157,579)
(Increase) in due from others	(15,744)	(9,075)
Increase (decrease) in deferred revenue	<u>24,103</u>	<u>(31,232)</u>
Total adjustments	<u>995,931</u>	<u>333,543</u>
Net cash provided by operating activities	<u>826,852</u>	<u>952,314</u>
Cash flows from investing activities:		
Cash payments for the purchase and development of property	<u>(1,191,494)</u>	<u>(775,756)</u>
Net cash (used) by investing activities	<u>(1,191,494)</u>	<u>(775,756)</u>
Cash flows from financing activities:		
Proceeds of line of credit	28,144,553	20,990,930
Repayment of line of credit	(27,730,875)	(20,249,419)
Proceeds of long-term debt	-	133,500
Principal payments on loans	(759,097)	(720,727)
Cash proceeds from disposal of property	<u>5,725</u>	<u>17,873</u>
Net cash (used) provided by financing activities	<u>(339,694)</u>	<u>172,157</u>
Net (decrease) increase in cash and cash equivalents	(704,336)	348,715
Cash and cash equivalents, beginning of year	<u>1,593,682</u>	<u>1,244,967</u>
Cash and cash equivalents, end of year	<u>\$ 889,346</u>	<u>\$ 1,593,682</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	<u>\$ 579,509</u>	<u>\$ 608,036</u>

**See accompanying notes to financial statements.**

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2014 and 2013

### 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, community residential 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 statements of financial position, consolidated statements of activities and changes in net assets and consolidated statements of cash flows.

A summary of the Agencies' 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 that no tax positions have been taken 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.

The Agencies' informational returns for fiscal years ended after June 30, 2010 remain open to inspection by the Internal Revenue Service.

##### 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 consolidated statements of cash flows, the Agencies consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

##### Restricted cash

Marrakech's cash balances at June 30, 2013 included \$500,000 held by Citizens Bank as a cash collateral reserve for its mortgages on the Agency's Clinton Harbor property (see Note 6). This balance was released by the bank during the fiscal year ended June 30, 2014, upon the Agency meeting certain financial and operating goals pertaining to the Clinton Harbor facility as defined in the loan agreement with the bank.

##### 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 amounts will not be collectible.

##### 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.

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2014 and 2013**

**Derivative debt agreements and interest rate risk management**

Marrakech, Inc. has entered into variable rate debt agreements (interest rate swap loans) related to mortgages owed on several of its properties. These arrangements enabled Marrakech, Inc. to fix the currently low interest rates on these obligations for ten years. Under the interest rate swap contracts, Marrakech, Inc. agrees to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times a notional amount.

No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of the termination and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the term of the contract. Marrakech, Inc. accounts for these swaps as cash flow hedges. Marrakech, Inc. does not issue or hold derivative contracts for speculative purposes.

**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 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, 2014 and 2013, there were temporarily restricted net assets of \$88,543 and \$499,523, respectively.

***Permanently restricted***

The Agencies had no permanently restricted net assets at June 30, 2014 and 2013.

**Evaluation of subsequent events**

Management has evaluated subsequent events through January 29, 2015, the date on which the financial statements were available to be issued.

**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.

A large concentration of grants are received from the State of Connecticut Department of Developmental Services, Department of Social Services and Department of Mental Health and Addiction Services as follows:

	2014	
	Percentage of Total	
	<u>Revenue</u>	<u>Receivable</u>
State of Connecticut Department of Developmental Services	54%	53%
State of Connecticut Department of Social Services	18%	21%
State of Connecticut Department of Mental Health and Addiction Services	<u>10%</u>	<u>10%</u>
	<u>82%</u>	<u>84%</u>

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2014 and 2013**

**Concentrations, continued**

	2013	
	Percentage of Total	
	<u>Revenue</u>	<u>Receivable</u>
State of Connecticut Department of Developmental Services	36%	25%
State of Connecticut Department of Social Services	21%	15%
State of Connecticut Department of Mental Health and Addiction Services	<u>6%</u>	<u>4%</u>
	<u>63%</u>	<u>44%</u>

**NOTE 3**

**FAIR VALUE MEASUREMENTS**

FASB ASC 820, *Fair Value Measurements*, governs the application of accounting principles generally accepted in the United States of America that require fair value measurements of the Agencies' assets and liabilities. Fair value as defined in ASC 820 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 established a three tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the financial instruments as noted below:

- *Level 1* - quoted prices in active markets for identical inputs.
- *Level 2* - other significant observable inputs.
- *Level 3* - significant unobservable inputs (including the Agencies' own assumptions in determining fair value).

The Agencies' financial instruments consist of cash and cash equivalents, accounts receivable, property and equipment, accounts payable, accrued liabilities and debt. These financial instruments approximate their fair values as of June 30, 2014 and 2013 due to their short-term nature.

**NOTE 4**

**REVENUES**

**Grants and contracts**

The operating revenue for the Agencies comes primarily from the State of Connecticut Departments of Developmental Services (DDS), Children & 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 under grant-in-aid bonding and other agreements, to finance the acquisition and development of property to be dedicated to a specific use over a required number of years, are recorded as deferred revenue on the Agencies' statements of financial position. Revenue is then recognized ratably over the restricted use period as the liability for repayment to the donor is reduced by any applicable forgiveness provisions.

**Fund-raising**

Marrakech, Inc. conducts various fund-raising activities during the year including various special events and appeals for donations. The total cost of fund-raising activities was \$114,488 and \$84,378 for the years ended June 30, 2014 and 2013, respectively which included salary and benefits associated with Marrakech, Inc. staff involved in fund-raising activities of \$10,086 and \$14,699 in each respective year.

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2014 and 2013

### NOTE 5

#### PROPERTY AND EQUIPMENT

Components of property and equipment are as follows:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 1,331,904	\$ 1,266,196
Transportation equipment	3,235,517	2,996,636
Buildings, land and improvements	18,595,166	18,068,210
Construction-in-progress	<u>302,856</u>	<u>135,080</u>
	23,465,443	22,466,122
Less: accumulated depreciation	<u>9,165,750</u>	<u>8,364,091</u>
Total	<u>\$14,299,693</u>	<u>\$14,102,031</u>

Depreciation expense was \$993,832 and \$935,144 for the years ended June 30, 2014 and 2013, respectively.

### NOTE 6

#### DEBT OBLIGATIONS

##### Lines of credit agreements

##### *Citizens Bank*

Marrakech, Inc. has a revolving line of credit with Citizens Bank which expired as of October 28, 2014 and was extended by the bank through March 2, 2015. Advances on the line of credit are payable on demand and bear interest at a variable rate under the note agreement. The maximum amount which may be withdrawn under the agreement is \$2,000,000. The interest rate was 4.25% as of June 30, 2014 and 2013 and the balances due were \$1,676,163 and \$1,676,484, respectively. The obligation has been guaranteed by each Agency.

##### *Start Community Bank*

Marrakech, Inc. has a revolving line of credit agreement with Start Community Bank. Advances on the line of credit bear interest at a variable rate under the agreement and are payable in full at the maturity date of the agreement unless the advances are converted to a term promissory note with the bank. The maximum amount which may be withdrawn under the agreement is \$600,000. The interest rates at June 30, 2014 and 2013 were 4.5% and 5.5%, respectively, and the balances due were \$0 in both years. The agreement matures on February 22, 2018.

##### *First Niagara Bank*

##### *Non-revolving loan agreement*

On June 27, 2013 Marrakech, Inc. entered into a non-revolving loan agreement with First Niagara Bank, to enable the agency(s) to finance the purchase of vehicles and other personal property. Advances on the agreement bear interest at the lender's announced prime rate as determined by the lender for calculating interest on certain loans and is payable monthly during the draw period. The maximum that may be drawn under the agreement is \$750,000 through and including June 27, 2014. Drawings on the agreement are convertible to a term loan after one year or at an earlier date in which the commitment is terminated or reduced to \$0 (the conversion date). After the conversion date, the accumulated balances on the agreement are repayable over a five year term at a fixed rate equal to the Federal Home Loan Bank (FHLB) rate plus 2.25%. As of June 30, 2014 and 2013, the balance owed was \$0 in each year, and the agreement has expired.

##### *Revolving credit loan agreement*

On October 17, 2013 Marrakech, Inc. entered into a revolving credit loan agreement with First Niagara Bank in order to provide capital on an as needed basis for improvements to the Agency's various properties. The maximum that may be withdrawn under the agreement is \$677,250. Advances on the agreement bear interest, which is payable monthly at the lender's announced prime rate as determined by the lender for calculating interest on certain loans. The agreement matures on September 1, 2018 at which time the principal balance outstanding and all accrued and unpaid interest and any fees are due. The balance due as of June 30, 2014 was \$414,000 and the interest rate was 3.25%.

##### **Financing for Clinton Harbor facility**

Marrakech, Inc.'s debt obligations include two loans of \$1,700,000 and \$1,000,000 which were obtained to permanently finance prior construction loans for the build-out of their Clinton Harbor property, an intermediate care facility for developmentally disabled individuals. As of June 30, 2014 and 2013, the balances owed on the \$1,700,000 loan were \$1,232,720 and \$1,377,642, respectively and the balances owed on the \$1,000,000 loan were \$911,413 and \$938,932, respectively. The \$1,700,000 and \$1,000,000 loans are payable in equal monthly amounts of principal of \$10,149 and \$1,918, respectively plus interest on each loan's respective monthly balance at 6.88% and 7.17% per annum on each loan, respectively. Principal balances on the loans are reset on an annual basis in accordance with each loan's

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2014 and 2013

### Financing for Clinton Harbor facility, continued

amortization schedule. Both loans mature on January 1, 2021 (ten years). The \$1,700,000 loan is being amortized on a ten year schedule and the \$1,000,000 loan is amortized over a twenty year time frame. The loans are secured by Marrakech's Clinton Harbor home and Woodbridge main office properties, including all improvements on each. A cash collateral reserve of \$500,000 was also held by the bank through June 30, 2013 and was refunded during the fiscal year ended June 30, 2014 upon meeting certain financial and operating goals pertaining to the property (see Note 1). These loans are included in the schedule of debt obligations at Table 6.1 at the end of these footnotes.

### Interest rate swap loans

The financing for the Clinton Harbor facility discussed above, along with three other loans (received in prior years), have been financed as "interest rate swap loans" as per the terms of a master agreement of the International Swap Dealers Association, Inc. These loans include credit-risk-related contingent features whereby the Agency could incur additional liabilities should the agreements be terminated before maturity by Marrakech, Inc. (see Note 1). As of the fiscal years ended June 30, 2014 and 2013, the agreements were in a net liability position totaling \$288,383 and \$325,750, respectively, which is shown on the Agency's consolidated statements of financial position under long-term liabilities as "derivative debt agreements." The Agency has recorded net income related to the agreements' changes in fair value of \$37,368 and \$195,980 for the fiscal years ended June 30, 2014 and 2013, respectively as shown on the consolidated statements of activities and changes in net assets under "change in fair value of derivative debt agreements". Please see Note 1 under "Derivative debt agreements and interest rate risk management" for additional information.

### Other mortgages and loans

The Agencies have additional mortgages and notes payable as of June 30, 2014 and 2013. Please see the schedule of debt obligations (Table 6.1) and their respective terms at the end of these footnotes.

### 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 December 31, 2016, 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.

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

2015	\$139,199
2016	86,558
2017	19,200
2018	-
2019	-
Total	<u>\$244,957</u>

Rent expense for the years ended June 30, 2014 and 2013 for these leased facilities was \$202,057 and \$202,186, respectively.

### NOTE 8

#### CONTINGENCIES

##### Grant funding for acquisition of properties

Certain Marrakech agencies have been awarded grant funding for acquisition of various properties, building improvements and vehicles 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

The cash advance payable of \$429,909 as of June 30, 2014 and 2013 represents cumulative amounts advanced to Marrakech Housing Options, Inc. from the Connecticut Department of Developmental Services (DDS) for 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.

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2014 and 2013**

**NOTE 10**

**DEFINED CONTRIBUTION PLAN**

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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 as authorized by the Board of Directors for the years ended June 30, 2014 and 2013 was \$0 and \$202,217, respectively.

**NOTE 11**

**LITIGATION**

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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.

**NOTE 12**

**RECLASSIFICATIONS**

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Certain adjustments have been made to the 2013 consolidated statement of cash flows in order to conform the presentation of the balances to the 2014 consolidated statement of cash flows.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Table 6.1 - Schedule of Debt Obligations

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>2014</u>	<u>2013</u>
<u>Mortgages payable</u>					
CCO Mortgage Corporation 106-108 Sherman Avenue, New Haven, Connecticut	4.25%	\$ 903	05/01/18	\$ 38,258	\$ 47,256
CCO Mortgage Corporation 60 Plainfield Avenue, New Haven, Connecticut	8.25%	270	07/01/30	28,712	29,617
CCO Mortgage Corporation 615-617 Whalley Avenue, New Haven, Connecticut	8.25%	338	08/01/30	36,072	37,105
CCO Mortgage Corporation 106-108 Hobart Street, New Haven, Connecticut	6.50%	484	09/01/31	59,932	61,773
CCO Mortgage Corporation 158R Meetinghouse Road, Durham, Connecticut	5.50%	1,416	03/01/36	214,772	219,804
CCO Mortgage Corporation 27-29 Robbins Street, Waterbury, Connecticut	5.63%	1,151	05/01/36	173,480	177,416
CCO Mortgage Corporation 85 Talmadge Hill Road, Prospect, Connecticut	5.88%	2,395	08/01/36	355,120	362,753
CCO Mortgage Corporation 88-90 Sherman Avenue, New Haven, Connecticut	5.63%	1,891	11/01/36	288,076	294,375
CCO Mortgage Corporation 25 Kreger Drive, Wolcott, Connecticut	5.63%	1,917	06/01/37	295,929	302,097
CCO Mortgage Corporation 32-34 Plant Street, New Haven, Connecticut	4.13%	894	10/01/40	171,872	175,432
Citizens Bank * 514-526 Whalley Avenue, New Haven, Connecticut	5.50%	2,564	05/18/21	176,511	197,040
Citizens Bank (see Note 6) * 5 Harbor Parkway, Clinton, Connecticut	6.88%	19,633	01/01/21	1,232,720	1,377,642
Citizens Bank (see Note 6) * 5 Harbor Parkway, Clinton, Connecticut	7.17%	7,855	01/01/21	911,413	938,932
Citizens Bank * 60 Knollwood Drive, New Haven, Connecticut	4.40%	1,100	12/22/21	187,996	192,797
Citizens Bank * 50 Oak Tree Avenue, Waterbury, Connecticut	4.40%	4,215	12/22/21	616,447	639,376
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	214,380	220,496
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	6.00%	1,332	01/01/22	96,253	106,141
Connecticut Department of Developmental Services 43 Ramsdell Street, New Haven, Connecticut	6.00%	1,120	03/01/18	44,136	53,831
Connecticut Department of Developmental Services 159 Osborn Avenue, New Haven, Connecticut	6.00%	1,675	06/01/19	85,153	99,669
Connecticut Department of Developmental Services 25 Kreger Drive, Wolcott, Connecticut	6.00%	1,441	07/01/38	219,663	223,647
Connecticut Housing Finance Authority 21 Victor Hill Road, Branford, Connecticut	7.34%	2,017	09/01/26	195,246	204,744
Connecticut Housing Finance Authority 33 Lake Street, West Haven, Connecticut	6.93%	2,343	07/16/27	242,277	253,175
Connecticut Housing Finance Authority 92 Hurd Road, Trumbull, Connecticut	6.63%	1,734	10/01/30	207,326	214,151
Connecticut Housing Finance Authority 92 View Terrace, East Haven, Connecticut	6.63%	1,740	10/01/30	208,065	214,914

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Table 6.1 - Schedule of Debt Obligations, Continued

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>2014</u>	<u>2013</u>
<u>Mortgages payable, continued</u>					
Connecticut Housing Finance Authority 2 Anton Circle, Bridgeport, Connecticut	5.75%	\$ 2,425	01/01/33	\$ 331,757	\$ 341,470
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	388,203	398,758
Wells Fargo Bank (f/k/a Wachovia Bank) 597 East Street, New Haven, Connecticut	6.66%	1,999	10/01/16	50,102	69,964
Wells Fargo Bank (f/k/a Wachovia Bank) 118 Migeon Avenue, Torrington, Connecticut	6.25%	1,242	06/01/18	51,564	62,808
Wells Fargo Bank (f/k/a Wachovia Bank) 615-617 Whalley Avenue, New Haven, Connecticut	7.25%	1,141	08/01/19	60,153	69,064
Wells Fargo Bank (f/k/a Wachovia Bank) 450 Island Lane, West Haven, Connecticut	7.15%	10,957	10/27/21	746,060	820,498
Total mortgages payable				7,927,648	8,406,745
Less: current portion				(478,952)	(479,485)
Total mortgages payable, net of current portion				<u>\$ 7,448,696</u>	<u>\$ 7,927,260</u>
* Mortgage is financed under an interest rate swap agreement. See Note 1 under "Derivative debt agreements and interest rate risk management" and Note 6 under "interest rate swap loans".					
<u>Loans payable</u>					
Citizens Bank Line of Credit (see Note 6)	4.25%	\$ -	03/02/15	\$ 1,676,163	\$ 1,676,484
Connecticut Department of Developmental Services/Unsecured	6.01%	187	01/01/13	-	73
Connecticut Department of Developmental Services/Unsecured	6.00%	201	10/01/13	-	581
Connecticut Department of Developmental Services/Unsecured	6.00%	116	10/01/13	-	346
Connecticut Department of Developmental Services/Unsecured	6.00%	181	04/01/16	3,599	5,091
Connecticut Department of Developmental Services/Unsecured	6.00%	98	07/01/16	2,202	3,203
Connecticut Department of Developmental Services/Unsecured	6.00%	129	10/01/18	5,785	6,945
Lakeland Bank/Automobile	10.82%	1,164	04/20/14	-	11,286
First Niagara Bank/First lien interest in personal property acquired with loan proceeds	4.25%	13,971	03/14/16	269,006	421,506
First Niagara Bank/Security agreement for personal property acquired with loan proceeds	3.25%	6,940	08/01/14	7,449	87,009
First Niagara Bank revolving credit loan agreement (see Note 6) improvements to property acquired with loan proceeds	3.25%	-	09/01/18	414,000	-
Start Community Bank Line of Credit (see Note 6)	4.50%	-	02/22/18	-	-
Start Community Bank /Corporate assets	5.25%	3,094	10/16/16	78,575	110,577
Toyota Credit Corporation/Automobile	6.96%	514	04/15/13	-	-
Total loans payable				2,456,779	2,323,101
Less: current portion				(1,880,432)	(1,936,819)
Total loans payable, net of current portion				<u>\$ 576,347</u>	<u>\$ 386,282</u>

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2014 and 2013**

**Table 6.1 - Schedule of Debt Obligations, Continued**

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

2015	\$ 2,359,384
2016	692,480
2017	922,023
2018	759,648
2019	981,313
Thereafter	<u>4,669,579</u>
	<u>\$ 10,384,427</u>

Interest expense related to the above mortgages and loans and the Agencies' lines of credit for the years ended June 30, 2014 and 2013 was \$579,509 and \$608,036, respectively.

**SUPPLEMENTARY INFORMATION**

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Operating Revenue

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Department of Developmental Services	\$ 18,757,830	\$ 17,635,729
Department of Social Services Room and Board	6,188,107	6,888,538
Department of Mental Health and Addiction Services	3,501,226	3,370,102
ABI revenue	1,771,591	2,027,207
DCF Work/Learn and Children Services programs	1,166,505	1,191,860
BRS revenue	654,625	679,521
Other revenue	618,800	343,792
Rental revenue	382,061	313,980
HSTP revenue	287,784	195,034
BESB revenue	84,521	89,696
Caning revenue	<u>30,139</u>	<u>27,564</u>
	<u>\$ 33,443,189</u>	<u>\$ 32,763,023</u>

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Non-Salary

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Transportation	\$ 1,011,256	\$ 1,026,115
Depreciation and amortization	1,022,966	966,394
Consultants	1,120,011	954,400
Utilities	893,369	847,334
Interest	579,509	608,036
Plant maintenance and repairs	549,856	506,062
Insurance	623,589	499,747
Food and household supplies	666,261	493,648
Miscellaneous	517,281	409,767
Intermediate care facility State of Connecticut user fees	272,326	284,818
Equipment expenses	209,505	213,241
Rent	202,057	208,627
Program supplies	226,169	193,354
Training	230,100	173,091
Professional fees	240,792	167,035
Property taxes	80,863	146,019
Medical supplies	146,761	116,731
Advertising	67,362	54,187
Dues, fees and licenses	<u>25,585</u>	<u>31,424</u>
	<u>\$ 8,685,618</u>	<u>\$ 7,900,030</u>

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Employee Benefits

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Health insurance benefits	\$ 1,840,840	\$ 1,768,969
FICA	1,548,982	1,507,229
Workers' compensation insurance	1,161,457	898,246
Pension expense	-	202,217
Miscellaneous	26,363	45,160
Unemployment insurance	<u>273,769</u>	<u>292,459</u>
	<u>\$ 4,851,411</u>	<u>\$ 4,714,280</u>

MARRAKECH, INC.

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2014

State Grantor Pass-Through Grantor <u>Program Title</u>	<u>State Grant Program CORE - CT Number</u>	<u>Expenditures</u>
Department of Developmental Services:		
Community Living Arrangements	11000-DDS50000-16122	\$ 8,000,495
Individual Home Supports	11000-DDS50000-16122	1,747,705
Community Training Home	11000-DDS50000-16122	147,565
Community Residential Supports	11000-DDS50000-16122	2,990,879
Day Services	11000-DDS50000-16108	4,665,687
Fee For Service (Waiver)	11000-DDS50000-unknown	1,073,182
Department of Mental Health and Addiction Services:		
Mental Health Service Grants	11000-MHA53000-16053	367,587
Employment Opportunities	11000-MHA53000-16070	655,984
Special Population	11000-MHA53000-12250	2,311,100
Managed Service System	11000-MHA53000-12157	20,000
Department of Labor:		
Passed-through Northwest Regional Workforce Investment Board, Waterbury, Connecticut:		
Jobs First Employment Service	11000-DOL40000-12212	94,582
Passed-through The Workplace, Inc., Bridgeport, Connecticut:		
Jobs First Employment Service	11000-DOL40000-12212	52,400
Passed-through Workforce Alliance, New Haven, Connecticut:		
Jobs First Employment Service	11000-DOL-40000-12212	45,509
Department of Children & Families:		
Work/Learn Program New Haven	11000-DCF91110-16120	366,938
Work/Learn Program Waterbury	11000-DCF91110-16120	272,129
Community Based Life Skills New Haven	11000-DCF91110-16120	42,713
Community Based Life Skills Greater New Haven	11000-DCF91110-16120	40,563
Work/Learn Program New Haven	Unknown-90496	32,604
Work/Learn Program Waterbury	Unknown-90496	<u>31,434</u>
Total State Financial Assistance		<u>\$22,959,056</u>

See notes to schedule.

MARRAKECH, INC.

Notes to the Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2014

The accompanying schedule of expenditures of state financial assistance includes state grant activity of Marrakech, Inc., Marrakech Housing Options, Inc., Marrakech Day Services, Inc. and Marrakech Residential Services, Inc. under programs of the State of Connecticut for the fiscal year ended June 30, 2014. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including various programs of the State of Connecticut's Departments of Developmental Services, Mental Health and Addiction Services, Social Services, Labor and Children & Families.

**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 accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

**Basis of accounting**

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, 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.

**NOTE 2**

**LOAN PROGRAMS**

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the schedule of expenditures of state financial assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2014:

Department of Developmental Services

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance at July 1, 2013</u>	<u>Paid</u>	<u>Balance at June 30, 2014</u>
Revolving loans payable:						
Englewood	06/01/03	6.01%	\$ 16,403	\$ 73	\$ 73	\$ -
Stevenson Road	11/01/03	6.00%	18,092	581	581	-
Wildwood Road	11/01/03	6.00%	10,483	346	346	-
Hurd Road	04/10/01	6.00%	21,480	5,091	1,492	3,599
Lyda Road	06/01/03	6.00%	10,642	3,203	1,001	2,202
Victor Hill Road	11/01/03	6.00%	15,261	6,945	1,160	5,785
Mortgages payable:						
Ramsdell Street	02/10/88	6.00%	186,800	53,831	9,695	44,136
Osborn Avenue	04/03/03	6.00%	207,582	99,669	14,516	85,153
Kreger Drive	12/01/08	6.00%	239,373	223,647	3,984	219,663

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Marrakech, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 29, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Marrakech, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marrakech, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

**Compliance and Other Matters**

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

**Purpose of This Report**

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

Guilmodiu D.P. + Sokalowski, LLC

Middletown, Connecticut  
January 29, 2015



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.:

**Report on Compliance for Each Major State Program**

We have audited Marrakech, Inc.'s compliance with the types of compliance requirements described in the Office of Policy and Management's *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, 2014. Marrakech, Inc.'s major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Marrakech, Inc.'s major state programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major state program. However, our audit does not provide a legal determination of Marrakech, Inc.'s compliance.

**Opinion on Each Major State Program**

In our opinion, Marrakech, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2014.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the State Single Audit Act and which are described in the accompanying schedule of findings and questioned costs as item 14-01. Our opinion on each major state program is not modified with respect to this matter.

Marrakech, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Marrakech, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of Marrakech, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Marrakech, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 14-01, that we consider to be a significant deficiency.

Marrakech, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Marrakech, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Guilmodiu D.P. + Sokolowski, LLC*

Middletown, Connecticut  
January 29, 2015

MARRAKECH, INC.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2014

1. SUMMARY OF AUDITOR'S RESULTS

*Financial Statements*

Type of auditor's opinion issued: Unmodified

Internal control over financial reporting:

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

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?   x   Yes        None

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

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?   x   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	\$ 8,000,495
Individual Home Supports	11000-DDS50000-16122	1,747,705
Community Training Home	11000-DDS50000-16122	147,565
Community Residential Supports	11000-DDS50000-16122	<u>2,990,879</u>
		<u>12,886,644</u>
Department of Children & Families:		
Work/Learn Program New Haven	11000-DCF91110-16120	366,938
Work/Learn Program Waterbury	11000-DCF91110-16120	272,129
Community Based Life Skills New Haven	11000-DCF91110-16120	42,713
Community Based Life Skills Greater New Haven	11000-DCF91110-16120	<u>40,563</u>
		<u>722,343</u>

Dollar threshold used to distinguish between type A and type B programs: \$459,181

2. FINANCIAL STATEMENT FINDINGS

None.

3. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

***Finding # 14-01:***

*Grantor:* State of Connecticut Department of Developmental Services  
*State Program Name:* Individual Home Supports Services  
*Pass-through Entity:* None  
*State Grant Program CORE-CT Number:* 11000-DDS50000-16122

## MARRAKECH, INC.

### Schedule of Findings and Questioned Costs, Continued

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#### **Criteria**

All DDS entities are approved to provide supports to individuals with intellectual disabilities through a Program Service Authorization. Program Service Authorizations for private organizations state the types of services to be provided. The Authorization will identify the types of services being funded, the number of hours and days service is to be provided, the rate to be billed for each hour or day of service, and the name of the individual whose services are being funded. Providers will bill only for services that are actually provided.

#### **Condition**

Billing must be based on documented hours of service in accordance with the DDS Guidelines for Provider Documentation dated September 12, 2011. The DDS Guidelines specify that arrival time and departure time of individuals receiving services be documented.

#### **Context**

In some instances, Marrakech Housing Options, Inc. had insufficient documentation for the amounts billed to the Department of Disability Services for program attendance. In three instances, the units billed did not match the time records and several attendance sheets did not include the required provider signatures or type of service.

#### **Cause**

A lack of proper controls and procedures.

#### **Effect**

A lack of proper support for Individual Home Supports services billed to the Department of Developmental Services.

#### **Recommendation**

We recommend that Marrakech Housing Options, Inc. implement new procedures and controls related to attendance and billing of services.

#### **Views of Responsible Officials and Planned Corrective Actions**

The Agency is in the process of reviewing the internal control procedures associated with the billing process. Agency supervisory personnel will provide re-training on attendance and billing functions to support staff on a continuous basis. The Agency will set up internal audit procedures and will conduct internal audits regularly on the attendance and billing function.