

**MARRAKECH, INC.**

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

**June 30, 2016 and 2015**

**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 Consolidated 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, 2016 and 2015, 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 Consolidated 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, 2016 and 2015, 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 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 25, 2017 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.

*Guilmadio D'Am + Sokolowski, LLC*

Middletown, Connecticut  
January 25, 2017

**FINANCIAL STATEMENTS**

**MARRAKECH, INC.**

**Consolidated Statements of Financial Position**

**June 30, 2016 and 2015**

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
| <u>Assets</u>   |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents   | \$ 1,609,969         | \$ 1,946,486         |
| Accounts receivable, net of allowance for doubtful accounts<br>of \$377,000 in 2016 and \$378,000 in 2015 | 2,361,679            | 2,939,172            |
| Prepaid expenses  | <u>847,649</u>       | <u>641,864</u>       |
| Total current assets  | <u>4,819,297</u>     | <u>5,527,522</u>     |
| Property and equipment, net   | 12,402,782           | 13,667,602           |
| Other assets  | <u>20,137</u>        | <u>46,225</u>        |
| Total assets  | <u>\$ 17,242,216</u> | <u>\$ 19,241,349</u> |
| <u>Liabilities and Net Assets</u>   |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable  | \$ 300,083           | \$ 358,595           |
| Accrued liabilities   | 2,344,999            | 1,640,114            |
| Due to grantors   | 495,642              | 547,263              |
| Deferred revenue, current portion   | 179,859              | 112,943              |
| Current portion of mortgages and loans payable  | <u>628,278</u>       | <u>2,683,056</u>     |
| Total current liabilities   | <u>3,948,861</u>     | <u>5,341,971</u>     |
| Long-term liabilities:  |                      |                      |
| Mortgages payable, less current portion   | 5,702,397            | 6,865,100            |
| Loans payable, less current portion   | 902,117              | 925,219              |
| Derivative debt agreements  | 272,389              | 251,623              |
| Deferred revenue, less current portion  | 188,233              | 161,975              |
| DDS cash advances   | 429,909              | 429,909              |
| Contingent liabilities (see Note 8)   | -                    | -                    |
| Total long-term liabilities   | <u>7,495,045</u>     | <u>8,633,826</u>     |
| Total liabilities   | <u>11,443,906</u>    | <u>13,975,797</u>    |
| Net assets:   |                      |                      |
| Unrestricted  | 5,715,664            | 5,186,162            |
| Temporarily restricted  | <u>82,646</u>        | <u>79,390</u>        |
| Total net assets  | <u>5,798,310</u>     | <u>5,265,552</u>     |
| Total liabilities and net assets  | <u>\$ 17,242,216</u> | <u>\$ 19,241,349</u> |

See accompanying notes to financial statements.

**MARRAKECH, INC.**

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

**For the years ended June 30, 2016 and 2015**

|  | <u>2016</u>         | <u>2015</u>         |
|--|---------------------|---------------------|
| <b><u>Changes in Unrestricted Net Assets</u></b>           |                     |                     |
| Revenue and other support:                                 |                     |                     |
| Operating revenue (Schedule 1)                             | \$ 34,432,055       | \$ 34,893,515       |
| Donations and fund-raising                                 | 214,999             | 258,676             |
| Net assets released from restrictions                      | <u>274,504</u>      | <u>185,337</u>      |
| Total unrestricted revenue and other support               | <u>34,921,558</u>   | <u>35,337,528</u>   |
| Operating expenses:  |                     |                     |
| Salary   | 21,823,546          | 21,798,635          |
| Non-salary (Schedule 2)                                    | 8,508,330           | 8,788,171           |
| Employee benefits (Schedule 3)                             | <u>4,243,641</u>    | <u>4,598,371</u>    |
| Total operating expenses                                   | <u>34,575,517</u>   | <u>35,185,177</u>   |
| Change in unrestricted net assets before other income      | <u>346,041</u>      | 152,351             |
| Other income:  |                     |                     |
| Change in fair value of derivative debt agreements         | (20,766)            | 36,760              |
| Unemployment tax refunds                                   | <u>204,227</u>      | <u>88,010</u>       |
| Total other income   | <u>183,461</u>      | <u>124,770</u>      |
| Change in unrestricted net assets                          | 529,502             | 277,121             |
| Unrestricted net assets, beginning of year                 | <u>5,186,162</u>    | 4,909,041           |
| Unrestricted net assets, end of year                       | <u>\$ 5,715,664</u> | <u>\$ 5,186,162</u> |
| <b><u>Changes in Temporarily Restricted Net Assets</u></b> |                     |                     |
| Donations  | \$ 277,760          | \$ 176,184          |
| Net assets released from restrictions                      | <u>(274,504)</u>    | <u>(185,337)</u>    |
| Change in temporarily restricted net assets                | <u>3,256</u>        | <u>(9,153)</u>      |
| Temporarily restricted net assets, beginning of year       | <u>79,390</u>       | 88,543              |
| Temporarily restricted net assets, end of year             | <u>\$ 82,645</u>    | <u>\$ 79,390</u>    |
| Total change in net assets                                 | <u>\$ 532,758</u>   | <u>\$ 267,968</u>   |

See accompanying notes to financial statements.

**MARRAKECH, INC.**

**Consolidated Statements of Cash Flows**

**For the years ended June 30, 2016 and 2015**

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Change in net assets  | <u>\$ 532,758</u>   | <u>\$ 267,968</u>   |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization   | 956,492             | 1,045,468           |
| Increase (decrease) in fair value of derivative debt agreements                             | 20,766              | (36,760)            |
| Loss on disposal of assets  | 73,682              | 5,336               |
| Decrease (increase) in accounts receivable  | 560,936             | (270,578)           |
| (Increase) decrease in prepaid expenses   | (205,785)           | 130,939             |
| Decrease (increase) in other assets   | 1,823               | (979)               |
| (Decrease) increase in accounts payable   | (58,512)            | 42,204              |
| Increase in accrued liabilities   | 704,885             | 58,380              |
| (Decrease) increase in due to grantors  | (51,621)            | 100,448             |
| Decrease in due from others   | 16,557              | 5,920               |
| Increase in deferred revenue  | <u>93,175</u>       | <u>9,427</u>        |
| Total adjustments   | <u>2,112,398</u>    | <u>1,089,805</u>    |
| Net cash provided by operating activities   | <u>2,645,156</u>    | <u>1,357,773</u>    |
| Cash flows from investing activities:   |                     |                     |
| Cash payments for the purchase and development of property                                  | <u>(718,509)</u>    | <u>(454,581)</u>    |
| Net cash (used) by investing activities   | <u>(718,509)</u>    | <u>(454,581)</u>    |
| Cash flows from financing activities:   |                     |                     |
| Proceeds of line of credit  | 3,708,523           | 22,876,918          |
| Repayment of line of credit   | (5,708,523)         | (22,553,081)        |
| Proceeds of long-term debt  | 128,471             | 515,923             |
| Principal payments on loans   | (1,369,054)         | (750,812)           |
| Cash proceeds from disposal of property   | <u>977,419</u>      | <u>65,000</u>       |
| Net cash (used) provided by financing activities  | <u>(2,263,164)</u>  | <u>153,948</u>      |
| Net (decrease) increase in cash and cash equivalents  | (336,517)           | 1,057,140           |
| Cash and cash equivalents, beginning of year  | <u>1,946,486</u>    | <u>889,346</u>      |
| Cash and cash equivalents, end of year  | <u>\$ 1,609,969</u> | <u>\$ 1,946,486</u> |
| Supplemental disclosures of cash flow information:  |                     |                     |
| Cash paid during the year for:  |                     |                     |
| Interest expense  | <u>\$ 494,050</u>   | <u>\$ 542,420</u>   |

**See accompanying notes to financial statements.**

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

### 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).

The accounting policies of Marrakech, Inc. and its sister corporations conform to accounting principles generally accepted in the United States of America applicable to nonprofit organizations. The following is a summary of the more significant policies:

##### 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.

##### 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, 2012 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.

##### 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.

##### 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

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

### Derivative debt agreements and interest rate risk management, continued

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, 2016 and 2015, there were temporarily restricted net assets of \$82,646 and \$79,390, respectively.

### *Permanently restricted*

The Agencies had no permanently restricted net assets at June 30, 2016 and 2015.

### Reclassification

Certain donations which had been included as temporary and unrestricted donations have been reclassified on the consolidated statements of activities and changes in net assets in 2015 in order to conform to the presentation of donations for 2016.

### 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:

|   | 2016           |                   |
|---|----------------|-------------------|
|   | <u>Revenue</u> | <u>Receivable</u> |
| State of Connecticut Department of Developmental Services               | 53%            | 41%               |
| State of Connecticut Department of Social Services                      | 19%            | 24%               |
| State of Connecticut Department of Mental Health and Addiction Services | <u>11%</u>     | <u>0%</u>         |
|   | <u>83%</u>     | <u>65%</u>        |

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**Concentrations, continued**

|   | 2015                |                   |
|---|---------------------|-------------------|
|   | Percentage of Total |                   |
|   | <u>Revenue</u>      | <u>Receivable</u> |
| State of Connecticut Department of Developmental Services               | 53%                 | 41%               |
| State of Connecticut Department of Social Services                      | 18%                 | 18%               |
| State of Connecticut Department of Mental Health and Addiction Services | <u>11%</u>          | <u>0%</u>         |
|   | <u>82%</u>          | <u>59%</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).

**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 \$115,176 and \$126,834 for the years ended June 30, 2016 and 2015, respectively which included salary and benefits associated with Marrakech, Inc. staff involved in fund-raising activities of \$20,172 and \$17,930 in each respective year.

**NOTE 5**

**PROPERTY AND EQUIPMENT**

Components of property and equipment as of June 30 are as follows:

|                                  | <u>2016</u>         | <u>2015</u>         |
|----------------------------------|---------------------|---------------------|
| Furniture and equipment          | \$ 1,509,550        | \$ 1,346,538        |
| Transportation equipment         | 3,649,379           | 3,432,628           |
| Buildings, land and improvements | 17,709,281          | 18,861,255          |
| Construction-in-progress         | <u>107,138</u>      | <u>85,569</u>       |
|                                  | 22,975,348          | 23,725,990          |
| Less: accumulated depreciation   | <u>10,572,566</u>   | <u>10,058,388</u>   |
| Total                            | <u>\$12,402,782</u> | <u>\$13,667,602</u> |

Depreciation expense was \$932,227 and \$1,016,335 for the years ended June 30, 2016 and 2015, respectively.

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

### 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 July 31, 2016 and has been further extended by the bank through July 31, 2018 (see Note 12). 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 \$2,500,000. The interest rate was 4.00% and 4.25% as of June 30, 2016 and 2015, respectively and the balances due were \$0 and \$2,000,000, 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 and balances due at June 30, 2016 and 2015 were 4.75% and 4.50%, respectively and \$0 in both years. The agreement matures on February 22, 2018.

###### *First Niagara Bank*

###### *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 balances due as of June 30, 2016 and 2015 were \$414,000 in each year. The interest rate on the agreement as of June 30, 2016 and 2015 was 3.50% and 3.25%, respectively.

###### *Non-revolving multiple draw term note*

On June 26, 2015 Marrakech, Inc. entered in to a non-revolving multiple draw term note with First Niagara Bank to provide capital for equipment purchases. The maximum that may be drawn under the agreement is \$500,000 through June 30, 2016. Advances on the agreement bear interest at the lender's prime rate as determined by the lender for calculating interest on certain loans. After June 30, 2016 or at an earlier mutually agreed upon date, the loan will be payable in monthly payments of principal and interest through the note's maturity on July 1, 2021. The interest rate during this period will be 2.25% plus the five year advance Federal Home Loan Bank (of New York) rate. As of June 30, 2016 and 2015, the balances owed on the agreement were \$462,152 and \$500,000, respectively and the interest rates were 4.14% and 3.25%, respectively.

##### 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, 2016 and 2015, the balances owed on the \$1,700,000 loan were \$910,730 and \$1,077,436, respectively and the balances owed on the \$1,000,000 loan were \$849,996 and \$881,908, respectively. The \$1,700,000 and \$1,000,000 loans are payable in equal monthly amounts of principal of \$14,392 and \$2,770, respectively plus interest on each loan's respective monthly balance at 7.35% and 7.64% per annum on each loan, respectively. Principal balances on the loans are reset on an annual basis in accordance with each loan's amortization schedule. Both loans mature on January 1, 2021. 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. 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

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

### Interest rate swap loans, continued

by Marrakech, Inc. As of the fiscal years ended June 30, 2016 and 2015, the agreements were in a net liability position totaling \$272,389 and \$251,623, 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 a net loss related to the agreements' changes in fair value of \$20,766 for the fiscal year ended June 30, 2016 and net income related to the agreements' changes in fair value of \$36,760 for the fiscal year ended June 30, 2015, 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, 2016 and 2015. 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 November 30, 2020, 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:

|       |                  |
|-------|------------------|
| 2017  | \$151,481        |
| 2018  | 93,058           |
| 2019  | 77,577           |
| 2020  | 79,801           |
| 2021  | <u>33,659</u>    |
| Total | <u>\$435,576</u> |

Rent expense for the years ended June 30, 2016 and 2015 for these leased facilities was \$252,223 and \$216,274, 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

#### DDS CASH ADVANCES

The cash advance payable of \$429,909 as of June 30, 2016 and 2015 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.

#### NOTE 10

#### DEFINED CONTRIBUTION PLAN

The Agencies have adopted a profit sharing plan covering all full-time employees who are at least twenty-one years old and have worked for the Agencies for at least one year. Each participant's interest in the employer's contributions and the earnings thereon are vested 20% after three years of service with an additional 20% vesting for each additional year of service thereafter, up to the maximum vesting of 100%. The Board of Directors determines the amount of the contribution each fiscal year, which is allocated to each participant in the same proportion as his or her compensation bears to the compensation of all participants. Total expenses as authorized by the Board of Directors for the years ended June 30, 2016 and 2015 were \$100,000 and \$0, respectively.

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**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**  
**SUBSEQUENT EVENTS**

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**Evaluation of subsequent events**

Management has evaluated subsequent events through January 25, 2017, the date on which the financial statements were available to be issued.

**Renewal of line of credit**

Marrakech's revolving line of credit agreement with Citizens Bank, which had expired on July 31, 2016 was extended through July 31, 2018. The maximum amount that the Agency may borrow on the agreement has remained at \$2,500,000. Interest on all borrowings is calculated at the prime rate plus one-half percent.

**Clinton Harbor facility**

The Board of Directors has authorized the sale of 5 Harbor Parkway in Clinton, Connecticut, which is anticipated to be completed during the fiscal year ended June 30, 2017. The sale price is anticipated to equal the remaining mortgage balances on two loans with Citizens Bank (which totaled \$1,760,726 at June 30, 2016), the assumption of derivative debt agreements as indicated in Note 6 (which totaled \$272,389 as of June 30, 2016) plus \$250,000. The property and equipment associated with this facility as of June 30, 2016 include a cost of \$3,325,000 and accumulated depreciation of \$800,000.

As of November 1, 2016, an intermediate care facility program at 5 Harbor Parkway in Clinton, Connecticut was transferred to another agency. For the fiscal year ended June 30, 2016, the Connecticut Department of Social Services funded the program's revenue and expenses which were approximately 3.1 million.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Table 6.1 - Schedule of Debt Obligations

| <u>Lender/Collateral</u>   | <u>Interest Rate</u> | <u>Monthly Payment</u> | <u>Maturity Date</u> | <u>2016</u> | <u>2015</u> |
|--|----------------------|------------------------|----------------------|-------------|-------------|
| <u>Mortgages payable</u>   |                      |                        |                      |             |             |
| CCO Mortgage Corporation<br>106-108 Sherman Avenue, New Haven, Connecticut   | 4.25%                | \$ 903                 | 05/01/18             | \$ 19,075   | \$ 28,870   |
| CCO Mortgage Corporation<br>60 Plainfield Avenue, New Haven, Connecticut   | 8.25%                | 270                    | 07/01/30             | 26,813      | 27,802      |
| CCO Mortgage Corporation<br>615-617 Whalley Avenue, New Haven, Connecticut   | 8.25%                | 338                    | 08/01/30             | 33,730      | 34,949      |
| CCO Mortgage Corporation<br>106-108 Hobart Street, New Haven, Connecticut  | 6.50%                | 484                    | 09/01/31             | 55,871      | 57,967      |
| CCO Mortgage Corporation<br>158R Meetinghouse Road, Durham, Connecticut  | 5.50%                | 1,416                  | 03/01/36             | 203,861     | 209,466     |
| CCO Mortgage Corporation<br>27-29 Robbins Street, Waterbury, Connecticut   | 5.63%                | 1,151                  | 05/01/36             | 164,912     | 169,316     |
| CCO Mortgage Corporation<br>85 Talmadge Hill Road, Prospect, Connecticut   | 5.88%                | 2,395                  | 08/01/36             | 338,443     | 347,026     |
| CCO Mortgage Corporation<br>88-90 Sherman Avenue, New Haven, Connecticut   | 5.63%                | 1,891                  | 11/01/36             | 274,376     | 281,418     |
| CCO Mortgage Corporation<br>25 Kreger Drive, Wolcott, Connecticut  | 5.63%                | 1,917                  | 06/01/37             | 282,505     | 289,406     |
| CCO Mortgage Corporation<br>32-34 Plant Street, New Haven, Connecticut   | 4.13%                | 894                    | 10/01/40             | 164,296     | 168,162     |
| Citizens Bank *<br>514-526 Whalley Avenue, New Haven, Connecticut  | 5.96%                | 2,626                  | 05/18/21             | 131,790     | 154,795     |
| Citizens Bank (see Note 6) *<br>5 Harbor Parkway, Clinton, Connecticut   | 7.35%                | 19,704                 | 01/01/21             | 910,730     | 1,077,436   |
| Citizens Bank (see Note 6) *<br>5 Harbor Parkway, Clinton, Connecticut   | 7.64%                | 7,873                  | 01/01/21             | 849,996     | 881,908     |
| Citizens Bank *<br>60 Knollwood Drive, New Haven, Connecticut  | 4.86%                | 1,099                  | 12/22/21             | 177,734     | 182,978     |
| Citizens Bank *<br>50 Oak Tree Avenue, Waterbury, Connecticut  | 4.86%                | 4,215                  | 12/22/21             | 567,432     | 592,481     |
| Community Capital Fund<br>Properties located in Bridgeport, Connecticut at<br>1041-1043 Main Street, 1053-1057 East Main Street,<br>224 Beach Street and 426-436 Arctic Street | 3.00%                | 1,054                  | 01/01/18             | -           | 208,077     |
| Community Capital Fund<br>Properties located in Bridgeport, Connecticut at<br>1041-1043 Main Street, 1053-1057 East Main Street,<br>224 Beach Street and 426-436 Arctic Street | 6.00%                | 1,332                  | 01/01/22             | -           | 85,756      |
| Connecticut Department of Developmental Services<br>159 Osborn Avenue, New Haven, Connecticut  | 6.00%                | 1,675                  | 06/01/19             | 53,381      | 69,742      |
| Connecticut Department of Developmental Services<br>25 Kreger Drive, Wolcott, Connecticut  | 6.00%                | 1,441                  | 07/01/38             | 210,949     | 215,437     |
| Connecticut Department of Developmental Services<br>85 Talmadge Hill Road, Prescott, Connecticut   | 6.00%                | 177                    | 07/01/24             | 13,452      | 14,725      |
| Connecticut Housing Finance Authority<br>21 Victor Hill Road, Branford, Connecticut  | 7.34%                | 2,017                  | 09/01/26             | 174,027     | 185,027     |
| Connecticut Housing Finance Authority<br>33 Lake Street, West Haven, Connecticut   | 6.93%                | 2,343                  | 07/16/27             | 218,081     | 230,599     |
| Connecticut Housing Finance Authority<br>92 Hurd Road, Trumbull, Connecticut   | 6.63%                | 1,734                  | 10/01/30             | 192,244     | 200,036     |
| Connecticut Housing Finance Authority<br>92 View Terrace, East Haven, Connecticut  | 6.63%                | 1,740                  | 10/01/30             | 192,929     | 200,748     |

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Table 6.1 - Schedule of Debt Obligations, Continued

| <u>Lender/Collateral</u>   | <u>Interest<br/>Rate</u> | <u>Monthly<br/>Payment</u> | <u>Maturity<br/>Date</u> | <u>2016</u>         | <u>2015</u>         |
|--|--------------------------|----------------------------|--------------------------|---------------------|---------------------|
| <u>Mortgages payable, continued</u>  |                          |                            |                          |                     |                     |
| Connecticut Housing Finance Authority<br>2 Anton Circle, Bridgeport, Connecticut   | 5.75%                    | \$ 2,425                   | 01/01/33                 | \$ 310,567          | \$ 321,468          |
| TD Bank<br>Properties located in Bridgeport, Connecticut at<br>1041-1043 Main Street, 1053-1057 East Main Street,<br>224 Beach Street and 426-436 Arctic Street                            | 7.00%                    | 3,210                      | 12/28/16                 | -                   | 376,872             |
| Wells Fargo Bank (f/k/a Wachovia Bank)<br>597 East Street, New Haven, Connecticut  | 6.66%                    | 1,999                      | 10/01/16                 | 6,133               | 28,856              |
| Wells Fargo Bank (f/k/a Wachovia Bank)<br>118 Migeon Avenue, Torrington, Connecticut   | 6.25%                    | 1,242                      | 06/01/18                 | 26,834              | 39,587              |
| Wells Fargo Bank (f/k/a Wachovia Bank)<br>615-617 Whalley Avenue, New Haven, Connecticut   | 7.25%                    | 1,141                      | 08/01/19                 | 40,256              | 50,564              |
| Wells Fargo Bank (f/k/a Wachovia Bank)<br>450 Island Lane, West Haven, Connecticut   | 7.15%                    | 10,957                     | 10/27/21                 | <u>580,161</u>      | <u>666,046</u>      |
| Total mortgages payable  |                          |                            |                          | 6,220,578           | 7,397,520           |
| Less: current portion  |                          |                            |                          | <u>(518,181)</u>    | <u>(532,420)</u>    |
| Total mortgages payable, net of current portion  |                          |                            |                          | <u>\$ 5,702,397</u> | <u>\$ 6,865,100</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)  | 4.00%                    | \$ -                       | 07/31/18                 | \$ -                | \$ 2,000,000        |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 181                        | 04/01/16                 | -                   | 1,589               |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 98                         | 07/01/16                 | -                   | 1,135               |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 129                        | 10/01/18                 | 3,245               | 4,553               |
| First Niagara Bank/First lien interest in<br>personal property acquired with loan proceeds   | 4.25%                    | 13,971                     | 03/14/16                 | -                   | 109,765             |
| First Niagara Bank revolving credit loan agreement<br>(see Note 6) improvements to property acquired<br>with loan proceeds   | 3.50%                    | -                          | 09/01/18                 | 414,000             | 414,000             |
| First Niagara Bank non-revolving multiple draw term note<br>(see Note 6)/Corporate assets  | 4.14%                    | -                          | 07/01/21                 | 462,152             | 500,000             |
| Start Community Bank /Corporate assets   | 5.25%                    | 3,094                      | 10/16/16                 | 9,217               | 44,813              |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 272                        | 04/01/26                 | 23,859              | -                   |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 91                         | 04/01/26                 | 7,998               | -                   |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 112                        | 04/01/26                 | 9,852               | -                   |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 304                        | 04/01/21                 | 14,792              | -                   |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 148                        | 04/01/31                 | 17,332              | -                   |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 517                        | 04/01/21                 | 25,214              | -                   |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 120                        | 04/01/26                 | 10,552              | -                   |
| Connecticut Department of Developmental<br>Services/Unsecured  | 6.00%                    | 287                        | 04/01/21                 | <u>14,001</u>       | <u>-</u>            |
| Total loans payable  |                          |                            |                          | 1,012,214           | 3,075,855           |
| Less: current portion  |                          |                            |                          | <u>(110,097)</u>    | <u>(2,150,636)</u>  |
| Total loans payable, net of current portion  |                          |                            |                          | <u>\$ 902,117</u>   | <u>\$ 925,219</u>   |

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**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:

|            |                     |
|------------|---------------------|
| 2017       | \$ 628,278          |
| 2018       | 542,803             |
| 2018       | 555,181             |
| 2020       | 562,590             |
| 2021       | 315,900             |
| Thereafter | <u>3,725,923</u>    |
|            | <u>\$ 6,330,675</u> |

Interest expense related to the above mortgages and loans and the Agencies' lines of credit for the years ended June 30, 2016 and 2015 was \$494,050 and \$542,420, respectively.

**SUPPLEMENTARY INFORMATION**

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Operating Revenue

For the years ended June 30, 2016 and 2015

|  | <u>2016</u>          | <u>2015</u>          |
|--|----------------------|----------------------|
| Department of Developmental Services               | \$ 18,887,317        | \$ 19,461,681        |
| Department of Social Services Room and Board       | 6,495,533            | 6,435,058            |
| Department of Mental Health and Addiction Services | 4,116,343            | 4,058,853            |
| ABI revenue  | 1,946,997            | 2,184,860            |
| DCF Work/Learn and Children Services programs      | 1,239,493            | 1,037,737            |
| BRS revenue  | 860,955              | 862,068              |
| Other revenue                                      | 41,017               | 60,050               |
| Rental revenue                                     | 404,833              | 363,915              |
| HSTP revenue                                       | 260,096              | 273,876              |
| BESB revenue                                       | 139,093              | 130,586              |
| Caning revenue                                     | <u>40,378</u>        | <u>24,831</u>        |
|  | <u>\$ 34,432,055</u> | <u>\$ 34,893,515</u> |

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Non-Salary

For the years ended June 30, 2016 and 2015

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Transportation  | \$ 805,859          | \$ 928,757          |
| Depreciation and amortization                             | 956,492             | 1,045,467           |
| Consultants   | 1,123,357           | 1,208,468           |
| Utilities   | 775,046             | 929,781             |
| Interest  | 494,050             | 542,420             |
| Plant maintenance and repairs                             | 616,458             | 639,299             |
| Insurance   | 791,895             | 752,476             |
| Food and household supplies                               | 780,695             | 671,162             |
| Miscellaneous   | 442,156             | 448,329             |
| Intermediate care facility State of Connecticut user fees | 264,553             | 270,577             |
| Equipment expenses  | 176,771             | 183,692             |
| Rent  | 252,223             | 216,274             |
| Program supplies  | 193,149             | 172,071             |
| Training  | 289,232             | 223,621             |
| Professional fees   | 205,533             | 199,781             |
| Property taxes  | 97,311              | 111,460             |
| Medical supplies  | 127,780             | 141,009             |
| Advertising   | 56,276              | 46,851              |
| Dues, fees and licenses                                   | <u>59,494</u>       | <u>56,676</u>       |
|   | <u>\$ 8,508,330</u> | <u>\$ 8,788,171</u> |

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Employee Benefits

For the years ended June 30, 2016 and 2015

|                                 | <u>2016</u>         | <u>2015</u>         |
|---------------------------------|---------------------|---------------------|
| Health insurance benefits       | \$ 1,326,938        | \$ 1,554,208        |
| FICA                            | 1,596,757           | 1,642,421           |
| Workers' compensation insurance | 851,808             | 1,068,713           |
| Pension expense                 | 100,000             | -                   |
| Miscellaneous                   | 109,842             | 55,253              |
| Unemployment insurance          | <u>258,296</u>      | <u>277,776</u>      |
|                                 | <u>\$ 4,243,641</u> | <u>\$ 4,598,371</u> |