

**MARRAKECH, INC.**

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

**June 30, 2017 and 2016**

**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, 2017 and 2016, and the related consolidated statements of activities, 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, 2017 and 2016, 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 29, 2018 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 29, 2018

**FINANCIAL STATEMENTS**

**MARRAKECH, INC.**

**Consolidated Statements of Financial Position**

**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 1,670,060	\$ 1,609,969
Accounts receivable, net of allowance for doubtful accounts of \$393,000 in 2017 and \$377,000 in 2016	2,469,617	2,361,679
Prepaid expenses	<u>571,255</u>	<u>847,649</u>
Total current assets	<u>4,710,932</u>	<u>4,819,297</u>
Property and equipment, net	<u>10,638,956</u>	<u>12,402,782</u>
Other assets:		
Investments - endowment	27,567	-
Other assets	<u>22,963</u>	<u>20,137</u>
Total other assets	<u>50,530</u>	<u>20,137</u>
 Total assets	 <u>\$ 15,400,418</u>	 <u>\$ 17,242,216</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 286,955	\$ 300,083
Accrued liabilities	2,093,907	2,344,999
Due to grantors	467,177	495,642
Deferred revenue, current portion	165,767	179,859
Current portion of mortgages and loans payable	<u>438,870</u>	<u>628,278</u>
Total current liabilities	<u>3,452,676</u>	<u>3,948,861</u>
Long-term liabilities:		
Mortgages payable, less current portion	4,689,423	5,702,397
Loans payable, less current portion	837,922	902,117
Derivative debt agreements	21,662	272,389
Deferred revenue, less current portion	192,754	188,233
DDS cash advances	429,909	429,909
Contingent liabilities (see Note 12)	-	-
Total long-term liabilities	<u>6,171,670</u>	<u>7,495,045</u>
Total liabilities	<u>9,624,346</u>	<u>11,443,906</u>
Net assets:		
Unrestricted	5,678,570	5,715,664
Temporarily restricted	<u>97,502</u>	<u>82,646</u>
Total net assets	<u>5,776,072</u>	<u>5,798,310</u>
 Total liabilities and net assets	 <u>\$ 15,400,418</u>	 <u>\$ 17,242,216</u>

See accompanying notes to financial statements.

**MARRAKECH, INC.**

**Consolidated Statements of Activities**

**For the years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Changes in Unrestricted Net Assets</u></b>		
Revenue and other support:		
Operating revenue (Schedule 1)	\$ 32,839,752	\$ 34,432,055
Donations and fund-raising	565,669	482,759
Net assets released from restrictions	<u>16,744</u>	<u>6,744</u>
Total unrestricted revenue and other support	<u>33,422,165</u>	<u>34,921,558</u>
Operating expenses:		
Salary	21,249,760	21,823,546
Non-salary (Schedule 2)	8,015,207	8,508,330
Employee benefits (Schedule 3)	<u>4,056,950</u>	<u>4,243,641</u>
Total operating expenses	<u>33,321,917</u>	<u>34,575,517</u>
Change in unrestricted net assets before other income	<u>100,248</u>	<u>346,041</u>
Other income (loss):		
Change in fair value of derivative debt agreements	19,115	(20,766)
Unemployment tax refunds	151,570	204,227
Loss on disposal of operating segment	<u>(308,027)</u>	<u>-</u>
Total (loss) other income	<u>(137,342)</u>	<u>183,461</u>
Change in unrestricted net assets	<u>(37,094)</u>	<u>529,502</u>
Unrestricted net assets, beginning of year	<u>5,715,664</u>	<u>5,186,162</u>
Unrestricted net assets, end of year	<u>\$ 5,678,570</u>	<u>\$ 5,715,664</u>
<b><u>Changes in Temporarily Restricted Net Assets</u></b>		
Donations	\$ 31,600	\$ 10,000
Net assets released from restrictions	<u>(16,744)</u>	<u>(6,744)</u>
Change in temporarily restricted net assets	<u>14,856</u>	<u>3,256</u>
Temporarily restricted net assets, beginning of year	<u>82,646</u>	<u>79,390</u>
Temporarily restricted net assets, end of year	<u>\$ 97,502</u>	<u>\$ 82,646</u>
Total change in net assets	<u>\$ (22,238)</u>	<u>\$ 532,758</u>

See accompanying notes to financial statements.

**MARRAKECH, INC.**

**Consolidated Statements of Cash Flows**

**For the years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (22,238)	\$ 532,758
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	856,001	956,492
Unrealized (gain) on investments	(1,191)	-
(Decrease) increase in fair value of derivative debt agreements	(19,115)	20,766
Loss on disposal of assets	322,750	73,682
(Increase) decrease in accounts receivable	(90,097)	560,936
Decrease (increase) in prepaid expenses	276,394	(205,785)
(Increase) decrease in other assets	(3,275)	1,823
(Decrease) in accounts payable	(13,128)	(58,512)
(Decrease) increase in accrued liabilities	(249,892)	717,021
(Decrease) in due to grantors	(28,465)	(51,621)
(Increase) decrease in due from others	(17,841)	16,557
(Decrease) increase in deferred revenue	(9,571)	93,175
Total adjustments	<u>1,022,570</u>	<u>2,124,534</u>
Net cash provided by operating activities	<u>1,000,332</u>	<u>2,657,292</u>
Cash flows from investing activities:		
Purchase of investments	(26,376)	-
Purchase of property and equipment	<u>(1,753,470)</u>	<u>(718,509)</u>
Net cash (used) by investing activities	<u>(1,779,846)</u>	<u>(718,509)</u>
Cash flows from financing activities:		
Proceeds of line of credit	-	3,708,523
Repayment of line of credit	-	(5,708,523)
Proceeds of long-term debt	943,737	128,471
Principal payments on loans	(573,696)	(722,383)
Cash proceeds from disposal of property	<u>469,564</u>	<u>318,612</u>
Net cash provided (used) by financing activities	<u>839,605</u>	<u>(2,275,300)</u>
Net increase (decrease) in cash	60,091	(336,517)
Cash, beginning of year	<u>1,609,969</u>	<u>1,946,486</u>
Cash, end of year	<u>\$ 1,670,060</u>	<u>\$ 1,609,969</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	<u>\$ 387,547</u>	<u>\$ 494,050</u>
Non-cash investing and financing activities:		
Payoff of loans on sales of properties	<u>\$ 1,636,618</u>	<u>\$ 646,671</u>
Security deposit liabilities assumed by buyer on sales of properties	<u>\$ 1,200</u>	<u>\$ 12,136</u>
Derivative debt liability assumed by buyer on sale of property	<u>\$ 231,612</u>	<u>\$ -</u>

**See accompanying notes to financial statements.**

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

### NOTE 1

#### **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Nature of organization**

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.

Marrakech, Inc. and its sister corporations, except for Marrakech Residential Services, Inc. fiscal years end on June 30<sup>th</sup>. Marrakech Residential Services, Inc.'s fiscal year ends on September 30<sup>th</sup>.

The following is a summary of the more significant policies:

##### **Basis of presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Agencies report information regarding their financial position and activities

according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted - Net assets whose use by the Agencies are subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Agencies or that expire by the passage of time.

Permanently restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Agencies and stipulate the use of income and/or appreciation as temporarily restricted based on donor-imposed stipulations or by operation of law. The Agencies had no permanently restricted net assets as of June 30, 2017 and 2016.

##### **Use of estimates**

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

##### **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 are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress.

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

### 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. The Agencies had no cash equivalents as of June 30, 2017 and 2016.

### Accounts receivable

The Agencies have accounts receivable related to grants and third party reimbursements. Based on historical experience, grants are considered fully collectible. Management performs an assessment of collectability related to other receivables and will write off receivables from individuals and other sources after all attempts at collection are exhausted. When appropriate, management maintains an allowance for doubtful accounts, which is based on a review of significant delinquent balances and past collection experience. The allowance for doubtful accounts at June 30, 2017 and 2016 was \$393,000 and \$377,000 respectively.

### 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. Repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in change in net assets for the period.

The Agencies review long-lived assets for impairment using an undiscounted cash flow method whenever events or circumstances indicate the carrying value of an asset may not be recoverable. There were no impairment losses related to long-lived assets as of June 30, 2017 and 2016.

### 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.

### Grants and contracts

Governmental grants and contracts are generally considered to be exchange transactions rather than contributions. Revenue from cost reimbursement grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of allowable expenditures are recorded on the statements of financial position 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.

Individuals who are provided services receive funds from the Connecticut Department of Social Services (DSS) and other sources which are passed through the Agencies as room and board fees.

### 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.

### Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value. The Agencies report contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as assets released from

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

### Contributions, continued

restrictions. If temporarily restricted support is received and the restriction is satisfied within the same fiscal year, the support is reported as unrestricted. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Agencies report gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the assets are to be used. Gifts of long-lived assets with explicit restrictions on how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations about how long those assets must be maintained, the Agencies report expirations of donor restrictions when the assets are placed in service.

Contributed services are recognized in the consolidated financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. However, many volunteers have donated significant amounts of time in supporting the Agencies' mission and fundraising campaigns.

### Cost settlement

The Agencies are subject to cost settlement procedures prescribed by various agencies of the State of Connecticut. Management's estimates of all cost settlements due are included as current liabilities on the balance sheet in "Due to grantors."

### Endowment and spending policy

The Agencies have adopted investment and spending policies for endowment assets that attempt to provide a reasonably predictable stream of funding for programs supported by their endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include an annual allocation of 5% of the Agencies' net fundraising income subject to the discretion of Marrakech's board of directors. Under this policy, the endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in account performance.

To satisfy its long-term rate of return objectives, the Agencies assume a conservative level of investment risk and hold their

investments in a professionally managed investment account consisting of global equity and bond funds and private assets. This is consistent with the Agencies' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Under the board of directors' discretion, management may access these funds at any time for the Agencies' use and the endowment is completely revocable.

### 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 \$121,762 and \$115,176 for the years ended June 30, 2017 and 2016, respectively which included salary and benefits associated with Marrakech, Inc. staff involved in fund-raising activities of \$20,172 in each respective year.

### Subsequent events

The Agencies have evaluated events and transactions for potential recognition or disclosure through January 29, 2018, which is the date the financial statements were available to be issued.

### Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

### NOTE 2

#### CONCENTRATIONS

The Agencies maintain their cash balances with high-credit quality financial institutions. At times, such amounts may exceed federal depository insurance limits. At June 30, 2017 the cash balance exceeded the federally insured limit by \$1,375,475.

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

The following tables show the Agencies' highest concentrations of revenues and receivables from these grants and contracts for the years ended June 30, 2017 and 2016:

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Concentrations, continued

	2017	
	Percentage of Total	
	<u>Revenue</u>	<u>Receivable</u>
State of Connecticut Department of Developmental Services	58%	45%
State of Connecticut Department of Social Services	13%	12%
State of Connecticut Department of Mental Health and Addiction Services	<u>13%</u>	<u>0%</u>
	<u>84%</u>	<u>57%</u>
	2016	
	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	19%	24%
State of Connecticut Department of Mental Health and Addiction Services	<u>11%</u>	<u>0%</u>
	<u>83%</u>	<u>65%</u>

**NOTE 3**

**PROPERTY AND EQUIPMENT**

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

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 1,446,963	\$ 1,509,550
Transportation equipment	3,626,315	3,649,379
Buildings, land and improvements	15,608,096	17,709,281
Construction-in-process	<u>125,589</u>	<u>107,138</u>
	20,806,963	22,975,348
Less: accumulated depreciation	<u>10,168,007</u>	<u>10,572,566</u>
Total	<u>\$10,638,956</u>	<u>\$12,402,782</u>

Depreciation expense was \$855,552 and \$932,227 for the years ended June 30, 2017 and 2016, respectively.

Construction-in-process at June 30, 2017 included costs incurred to build out program and administrative space in various properties throughout the Agencies and implementation of a new companywide payroll system.

**NOTE 4**

**LINES OF CREDIT**

**Citizens Bank**

Marrakech, Inc. has a revolving line of credit with Citizens Bank which expires on July 31, 2018. 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 4.75% and 4.00% as of June 30, 2017 and 2016, respectively and the balances due were \$0 in both years. 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, 2017 and 2016 were 5.50% and 4.75%, respectively and \$0 in both years. The agreement matures on February 22, 2018.

**Key Bank (f/k/a First Niagara Bank)**

*Revolving credit loan agreement*

On October 17, 2013 Marrakech, Inc. entered into a revolving credit loan agreement with Key Bank (f/k/a 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, 2017 and 2016 were \$414,000 in each year. The interest rate on the agreement as of June 30, 2017 and 2016 was 4.25% and 3.50%, respectively.

## MARRAKECH, INC.

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### Key Bank (f/k/a First Niagara Bank), continued

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

On June 26, 2015 Marrakech, Inc. entered in to a non-revolving multiple draw term note with Key Bank (f/k/a First Niagara Bank) to provide capital for equipment purchases. The maximum that may be drawn under the agreement was \$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, the loan became 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, 2017 and 2016, the balances owed on the agreement were \$368,805 and \$462,152, respectively and the interest rate was 4.14% in both years.

#### **NOTE 5**

##### **LONG-TERM DEBT**

#### **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. On April 7, 2017, this property was sold and these loans, along with the related additional liabilities under their respective derivative debt agreements (see "interest rate swap loans" below), were assumed by the buyer of the property as part of the sales price. As of June 30, 2017 and 2016, the balances owed on the \$1,700,000 loan were \$0 and \$910,730, respectively and the balances owed on the \$1,000,000 loan were \$0 and \$849,996, respectively. The \$1,700,000 and \$1,000,000 loans were payable in equal monthly amounts of principal of \$14,392 and \$2,770, respectively plus interest on each loan's respective monthly balance at 6.88% and 7.17% per annum. Principal balances on the loans were reset on an annual basis in accordance with each loan's amortization schedule and both loans' scheduled maturities were on January 1, 2021. The \$1,700,000 loan was being amortized on a ten year schedule and the \$1,000,000 loan was amortized over a twenty year time frame. The loans were 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 5.1 at the end of these footnotes.

#### Interest rate swap loans

The financing for the Clinton Harbor facility discussed above, along with three other loans (which were also 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. As discussed above, the Clinton Harbor property was sold on April 7, 2017 and the related two interest rate swap loans under that property's two loan obligations were assumed by the buyer of the property as part of the sales price.

As of the fiscal years ended June 30, 2017 and 2016, the agreements were in a net liability position totaling \$21,662 and \$272,389, 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 \$19,115 for the fiscal year ended June 30, 2017 and a net loss related to the agreements' changes in fair value of \$20,766 for the fiscal year ended June 30, 2016, as shown on the consolidated statements of activities 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, 2017 and 2016. Please see the schedule of debt obligations (Table 5.1) and their respective terms at the end of these footnotes.

#### **NOTE 6**

##### **DDS CASH ADVANCES**

When a facility commences operations, the Agency may receive an operational advance equal to the service revenue for one month based on full capacity. These operational advances are applied against the final reimbursement when a facility ceases their agency relationship with DDS. Total operational advances were \$429,909 for each fiscal year ended June 30, 2017 and 2016.

#### **NOTE 7**

##### **OPERATING LEASES**

Marrakech, Inc. has a lease agreement with an unrelated party to rent property in Milford, Connecticut used for a DCF licensed group home for students enrolled in an academic

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2017 and 2016**

**Operating leases, continued**

program sponsored by the lessor through March 20, 2018. Annual base rent is \$1 plus an annual student rent of \$7,000 per year per student and is due and payable for each full month that a student resides at the premises. Marrakech, Inc. is reimbursed for the annual student rents under the program through the town the student is attending school and, as a result, there is no corresponding expense in the consolidated financial statements for the student rents.

Marrakech, Inc. has an informal lease agreement with an unrelated party to rent property in Milford and West Haven, Connecticut on a month-to-month basis. Monthly rent is \$2,564 and \$2,832, respectively. The properties under the lease are used to operate two intermediate care facilities.

Marrakech, Inc. has an operating lease agreement with the State of Connecticut to rent a house in Trumbull, Connecticut for \$1 per year. The lease agreement expired on January 31, 2016 and continues on a month-to-month basis while Marrakech, Inc. awaits approval of a longer term lease from the State of Connecticut. The house is used to operate a CLA program for DDS.

Marrakech, Inc. has an operating lease agreement with an unrelated party to rent property in Waterbury, Connecticut used for job training programs through December 31, 2019. Monthly rent is \$3,200 and increases by \$100 per month beginning in January 2018 and January 2019.

Marrakech, Inc. has an operating lease agreement with an unrelated party to rent property in Bridgeport, Connecticut used for educational programs, maintenance and vocational rehabilitation programs through May 17, 2018. Monthly rent is \$1,600.

Marrakech, Inc. has an operating lease agreement with an unrelated party to rent property in New Milford, Connecticut used for Day programs through November 30, 2020. Monthly rent is \$6,180 and increases by 3% annually.

Marrakech, Inc. had an informal lease agreement with an unrelated party to rent property in Woodbridge, Connecticut used for a bakery and deli for their employment programs. The lease was terminated on December 15, 2016. Monthly rent was \$500 through the date of termination.

Marrakech, Inc. had an informal lease agreement with an unrelated party to rent property in Clinton, Connecticut used for a Day program. On November 1, 2016 the Day program was transferred to another agency and the lease agreement was terminated. The monthly rent was \$2,000 as of the date of termination.

Marrakech, Inc. has an informal lease agreement with an unrelated party to rent property in Middletown, Connecticut used for administrative offices for their Acquired Brain Injury (ABI) program. The lease agreement expired on October 15, 2012 and continues on a month-to-month basis. The rent is \$1,100 per month.

Marrakech, Inc. has several other informal lease agreements with unrelated parties to rent houses and apartments for their Young Adult Services Programs through the Connecticut Department of Mental Health and Addiction Services (DMHAS), Community Living Arrangement and Shared Living programs through the Connecticut Department of Disability Services (DDS) and to provide other services.

Rents under these programs are reimbursed by either the state agencies or by Marrakech's clients and, as a result, there is no corresponding rent expense in the consolidated financial statements.

Related rent expense for the years ended June 30, 2017 and 2016 was \$286,390 and \$252,223, respectively.

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

2018	\$132,058
2019	117,777
2020	100,201
2021	33,659
2022	-
Total	<u>\$383,695</u>

**NOTE 8**

**TEMPORARILY RESTRICTED NET ASSETS**

At June 30, 2017 and 2016, temporarily restricted net assets are available for the following purposes and amounts:

	<u>2017</u>	<u>2016</u>
Island Lane renovations	\$ 6,503	\$ 6,836
Robbins Street renovations	39,001	41,001
Whalley Avenue renovations	10,485	11,085
106 Sherman Avenue renovations	9,913	13,724
Carpeting grant	<u>31,600</u>	<u>10,000</u>
	<u>\$97,502</u>	<u>\$82,646</u>

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2017 and 2016**

**NOTE 9**

**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, 2017 and 2016 were \$0 and \$100,000, respectively.

as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agencies classify as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by CTUPMIFA.

**NOTE 10**

**ENDOWMENT**

The Agencies' endowment may include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CTUPMIFA)

In accordance with CTUPMIFA, the Agencies consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Agencies and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation (depreciation) of investments.
6. Other resources of the Agencies.
7. The investment policies of the Agencies.

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ -	\$ -
Board-designated endowment funds	<u>27,567</u>	<u>-</u>	<u>-</u>	<u>27,567</u>
Total funds	<u>\$27,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$27,567</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

Endowment net assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Board-designated additions	26,376	-	-	26,376
Net realized and unrealized appreciation	1,191	-	-	1,191
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$27,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$27,567</u>

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

**Endowment, continued**

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or applicable law requires the Agencies to retain as a fund of perpetual duration. As there were no donor-restricted endowment funds, there were no deficiencies as of June 30, 2017.

**NOTE 11**

**BOARD DESIGNATION OF UNRESTRICTED NET ASSETS**

The Board of Directors has designated the following unrestricted net assets:

	<u>2017</u>	<u>2016</u>
Endowment	<u>\$27,567</u>	<u>\$ -</u>

**NOTE 12**

**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.

The State of Connecticut has liens on certain properties for the amounts of their respective grants which will terminate on various dates between December 3, 2019 and November 25, 2025. The properties renovated by these state funds continue to be used for their designated purposes as of June 30, 2017.

**NOTE 13**

**DISCONTINUED OPERATIONS**

FASB accounting standards update No 2014-08 "Reporting discontinued operations and disclosures of disposals of components of an entity" expands the reporting requirements for disposals which will have a major effect on an entity's results and operations.

On April 7, 2017, Marrakech's Clinton Harbor intermediate care facility and day program were sold to an unrelated entity. The sale price was \$2,145,923 which included cash of \$293,260 plus the buyers' assumption of debt owed on the property including mortgages of \$1,621,051 and the balance on the related derivative debt agreement of \$231,612. Marrakech's depreciated cost of the property and equipment sold was \$2,453,950 and the loss on the disposal was \$308,027, as shown within other income on the Agencies' year ended June 30, 2017 consolidated statements of activities.

During 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.

The Agencies have reported other gains and losses on disposals of assets which do not meet the reporting requirements of ASU No. 2014-08 as part of operating revenue on the consolidated statements of activities.

**NOTE 14**

**FUNCTIONAL EXPENSES**

Consolidated functional expenses for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$31,447,035	\$32,692,760
General and administrative	<u>1,874,882</u>	<u>1,882,757</u>
	<u>\$33,321,917</u>	<u>\$34,575,517</u>

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Table 5.1 - Schedule of Debt Obligations

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>2017</u>	<u>2016</u>
<u>Mortgages payable</u>					
CCO Mortgage Corporation 106-108 Sherman Avenue, New Haven, Connecticut	4.25%	\$ 903	05/01/18	\$ 8,855	\$ 19,075
CCO Mortgage Corporation 60 Plainfield Avenue, New Haven, Connecticut	8.25%	270	07/01/30	25,740	26,813
CCO Mortgage Corporation 615-617 Whalley Avenue, New Haven, Connecticut	8.25%	338	08/01/30	32,407	33,730
CCO Mortgage Corporation 106-108 Hobart Street, New Haven, Connecticut	6.50%	484	09/01/31	53,635	55,871
CCO Mortgage Corporation 158R Meetinghouse Road, Durham, Connecticut	5.50%	1,416	03/01/36	197,939	203,861
CCO Mortgage Corporation 27-29 Robbins Street, Waterbury, Connecticut	5.63%	1,151	05/01/36	160,254	164,912
CCO Mortgage Corporation 85 Talmadge Hill Road, Prospect, Connecticut	5.88%	2,395	08/01/36	329,342	338,443
CCO Mortgage Corporation 88-90 Sherman Avenue, New Haven, Connecticut	5.63%	1,891	11/01/36	266,926	274,376
CCO Mortgage Corporation 25 Kreger Drive, Wolcott, Connecticut	5.63%	1,917	06/01/37	275,207	282,505
CCO Mortgage Corporation 32-34 Plant Street, New Haven, Connecticut	4.13%	894	10/01/40	160,267	164,296
Citizens Bank * 514-526 Whalley Avenue, New Haven, Connecticut	5.96%	2,626	05/18/21	107,402	131,790
Citizens Bank (see Note 5) * 5 Harbor Parkway, Clinton, Connecticut	7.35%	19,704	01/01/21	-	910,730
Citizens Bank (see Note 5) * 5 Harbor Parkway, Clinton, Connecticut	7.64%	7,873	01/01/21	-	849,996
Citizens Bank * 60 Knollwood Drive, New Haven, Connecticut	4.86%	1,099	12/22/21	172,252	177,734
Citizens Bank * 50 Oak Tree Avenue, Waterbury, Connecticut	4.86%	4,215	12/22/21	541,251	567,432
Connecticut Department of Developmental Services 159 Osborn Avenue, New Haven, Connecticut	6.00%	1,675	06/01/19	36,010	53,381
Connecticut Department of Developmental Services 25 Kreger Drive, Wolcott, Connecticut	6.00%	1,441	07/01/38	206,185	210,949
Connecticut Department of Developmental Services 85 Talmadge Hill Road, Prescott, Connecticut	6.00%	177	07/01/24	12,101	13,452
Connecticut Housing Finance Authority 21 Victor Hill Road, Branford, Connecticut	7.34%	2,017	09/01/26	162,198	174,027
Connecticut Housing Finance Authority 33 Lake Street, West Haven, Connecticut	6.93%	2,343	07/16/27	204,671	218,081
Connecticut Housing Finance Authority 92 Hurd Road, Trumbull, Connecticut	6.63%	1,734	10/01/30	183,924	192,244
Connecticut Housing Finance Authority 92 View Terrace, East Haven, Connecticut	6.63%	1,740	10/01/30	184,579	192,929
Connecticut Housing Finance Authority 2 Anton Circle, Bridgeport, Connecticut	5.75%	2,425	01/01/33	299,028	310,567
Connecticut Housing Finance Authority 29 Briarwood Terrace, Middlebury, Connecticut	3.00%	1,939	01/01/47	455,909	-
Connecticut Housing Finance Authority 102 Harwinton Avenue, Plymouth, Connecticut	3.00%	1,783	01/01/47	419,061	-
Wells Fargo Bank (f/k/a Wachovia Bank) 597 East Street, New Haven, Connecticut	6.66%	1,999	10/01/16	-	6,133

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Table 5.1 - Schedule of Debt Obligations, Continued

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>2017</u>	<u>2016</u>
<u>Mortgages payable, continued</u>					
Wells Fargo Bank (f/k/a Wachovia Bank) 118 Migeon Avenue, Torrington, Connecticut	6.25%	\$ 1,242	06/01/18	\$ -	\$ 26,834
Wells Fargo Bank (f/k/a Wachovia Bank) 615-617 Whalley Avenue, New Haven, Connecticut	7.25%	1,141	08/01/19	29,154	40,256
Wells Fargo Bank (f/k/a Wachovia Bank) 450 Island Lane, West Haven, Connecticut	7.15%	10,957	10/27/21	487,713	580,161
Total mortgages payable				5,012,010	6,220,578
Less: current portion				(322,587)	(518,181)
Total mortgages payable, net of current portion				\$ 4,689,423	\$ 5,702,397
* Mortgage is financed under an interest rate swap agreement. See Note 1 under "Derivative debt agreements and interest rate risk management" and Note 5 under "Interest rate swap loans".					
<u>Loans payable</u>					
Connecticut Department of Developmental Services/Unsecured	6.00%	\$ 129	10/01/18	\$ 1,857	\$ 3,245
Key Bank revolving credit loan agreement (see Note 4) improvements to property acquired with loan proceeds	4.25%	-	09/01/18	414,000	414,000
Key Bank non-revolving multiple draw term note (see Note 4)/Corporate assets	4.14%	-	07/01/21	368,805	462,152
Start Community Bank/Corporate assets	5.25%	3,094	10/16/16	-	9,217
Connecticut Department of Developmental Services/Unsecured	6.00%	272	04/01/26	21,981	23,859
Connecticut Department of Developmental Services/Unsecured	6.00%	91	04/01/26	7,369	7,998
Connecticut Department of Developmental Services/Unsecured	6.00%	112	04/01/26	9,076	9,852
Connecticut Department of Developmental Services/Unsecured	6.00%	304	04/01/21	11,961	14,792
Connecticut Department of Developmental Services/Unsecured	6.00%	148	04/01/31	16,572	17,332
Connecticut Department of Developmental Services/Unsecured	6.00%	517	04/01/21	20,388	25,214
Connecticut Department of Developmental Services/Unsecured	6.00%	120	04/01/26	9,720	10,552
Connecticut Department of Developmental Services/Unsecured	6.00%	287	04/01/21	11,320	14,001
Connecticut Department of Developmental Services/Unsecured	6.00%	119	07/01/22	6,156	-
Connecticut Department of Developmental Services/Unsecured	6.00%	230	07/01/32	27,200	-
Connecticut Department of Developmental Services/Unsecured	6.00%	235	07/01/32	27,800	-
Total loans payable				954,205	1,012,214
Less: current portion				(116,283)	(110,097)
Total loans payable, net of current portion				\$ 837,922	\$ 902,117

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2017 and 2016**

**Table 5.1 - Schedule of Debt Obligations, Continued**

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

2018	\$ 438,870
2019	866,151
2020	448,663
2021	423,356
2022	248,436
Thereafter	<u>3,540,739</u>
	<u>\$ 5,966,215</u>

Interest expense related to the above mortgages, loans and the lines of credit for the years ended June 30, 2017 and 2016 was \$387,547 and \$494,050, respectively.

**SUPPLEMENTARY INFORMATION**

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Operating Revenue

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Department of Developmental Services	\$ 19,361,221	\$ 18,887,317
Department of Social Services Room and Board	4,181,083	6,495,533
Department of Mental Health and Addiction Services	4,005,564	3,913,487
ABI revenue	1,946,117	1,946,997
DCF Work/Learn and Children Services programs	1,016,699	1,239,493
BRS revenue	900,860	860,955
Other revenue, net of gains and losses on disposals of assets	572,806	243,873
Rental revenue	424,679	404,833
HSTP revenue	198,220	260,096
BESB revenue	130,143	139,093
Caning revenue	<u>102,360</u>	<u>40,378</u>
	<u>\$ 32,839,752</u>	<u>\$ 34,432,055</u>

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Non-Salary

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Transportation	\$ 865,177	\$ 805,859
Depreciation and amortization	856,001	956,492
Consultants	1,050,593	1,123,357
Utilities	766,321	775,046
Interest	387,547	494,050
Plant maintenance and repairs	444,570	616,458
Insurance	719,204	791,895
Food and household supplies	735,575	780,695
Miscellaneous	476,138	442,156
Intermediate care facility State of Connecticut user fees	160,785	264,553
Equipment expenses	158,680	176,771
Rent	286,390	252,223
Program supplies	213,461	193,149
Training	353,232	289,232
Professional fees	281,184	205,533
Property taxes	73,334	97,311
Medical supplies	80,002	127,780
Advertising	64,184	56,276
Dues, fees and licenses	<u>42,829</u>	<u>59,494</u>
	<u>\$ 8,015,207</u>	<u>\$ 8,508,330</u>

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Employee Benefits

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Health insurance benefits	\$ 1,555,910	\$ 1,326,938
FICA	1,601,461	1,596,757
Workers' compensation insurance	681,053	851,808
Pension expense	-	100,000
Miscellaneous	24,443	109,842
Unemployment insurance	<u>194,083</u>	<u>258,296</u>
	<u>\$ 4,056,950</u>	<u>\$ 4,243,641</u>