

**MARRAKECH, INC.**

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

**June 30, 2019**

**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 statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated supporting schedule of operating revenue (Schedule 1) is presented for purposes of additional analysis and is 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 30, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Marrakech, Inc.'s 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.

*Guilmodio D.P. + Sokolowski, LLC*

Middletown, Connecticut

January 30, 2020

**FINANCIAL STATEMENTS**

MARRAKECH, INC.

Consolidated Statement of Financial Position

June 30, 2019

Assets

Current assets:	
Cash	\$ 2,678,626
Accounts receivable, net of allowance for doubtful accounts of \$314,000	2,495,828
Prepaid expenses	<u>646,562</u>
Total current assets	<u>5,821,016</u>
Property and equipment, net	<u>10,405,388</u>
Other assets:	
Investments - endowment	63,549
Other assets	<u>48,241</u>
Total other assets	<u>111,790</u>
Total assets	<u>\$ 16,338,194</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 392,290
Accrued liabilities	2,323,480
Due to grantors	1,078,238
Deferred revenue	89,751
Current portion of mortgages and loans payable	<u>474,095</u>
Total current liabilities	<u>4,357,854</u>
Long-term liabilities:	
Mortgages payable, less current portion	4,028,813
Loans payable, less current portion	731,251
Derivative debt agreements	12,024
DDS cash advances	<u>599,046</u>
Total long-term liabilities	<u>5,371,134</u>
Total liabilities	<u>9,728,988</u>
Net assets:	
Without donor restrictions:	
Undesignated	6,499,543
Board designated	<u>63,549</u>
Total without donor restrictions	<u>6,563,092</u>
With donor restrictions:	
Restricted donations	<u>46,114</u>
Total with donor restrictions	<u>46,114</u>
Total net assets	<u>6,609,206</u>
Total liabilities and net assets	<u>\$ 16,338,194</u>

See accompanying notes to financial statements.

**MARRAKECH, INC.**

**Consolidated Statement of Activities**

**For the year ended June 30, 2019**

Unrestricted revenue and other support:	
Operating revenue (Schedule 1)	\$ 33,730,747
Donations and fundraising	272,959
Net assets released from restrictions	<u>43,084</u>
Total unrestricted revenue and other support	<u>34,046,790</u>
Operating expenses:	
Program services:	
Residential services	17,371,507
In home support services	2,268,271
Day services	4,921,558
Mental health services	3,623,097
Housing services	1,066,459
Other program services	<u>1,082,718</u>
Total program services	<u>30,333,610</u>
Supporting services:	
Administrative and general	3,628,145
Fundraising expenses	<u>153,176</u>
Total supporting services	<u>3,781,321</u>
Total operating expenses	<u>34,114,931</u>
Change in net assets without donor restrictions from operations	<u>(68,141)</u>
Non-operating activities:	
Change in fair value of derivative debt agreements	(17,113)
Unemployment tax refunds	119,477
State grants for capital projects	<u>521,979</u>
Total non-operating activities	<u>624,343</u>
Change in net assets without donor restrictions	556,202
Net assets without donor restrictions, beginning of year	<u>6,006,890</u>
Net assets without donor restrictions, end of year	<u>\$ 6,563,092</u>
Donations	\$ 46,114
Net assets released from donor restrictions	<u>(43,084)</u>
Change in net assets with donor restrictions	<u>3,030</u>
Net assets with donor restrictions, beginning of year as restated	<u>43,084</u>
Net assets with donor restrictions, end of year	<u>\$ 46,114</u>
Total change in net assets	<u>\$ 559,232</u>

**See accompanying notes to financial statements.**

MARRAKECH, INC.

Consolidated Statement of Functional Expenses

For the year ended June 30, 2019

	Program Services						Supporting Services		Total
	Residential Services	In Home Support Services	Day Services	Mental Health Services	Housing Services	Other Programs	Administrative and General	Fundraising	
Salaries and wages	\$ 11,768,995	\$ 1,792,871	\$ 3,323,291	\$ 2,336,348	\$ 8,143	\$ 417,336	\$ 2,141,196	\$ 20,172	\$ 21,808,352
Fringe benefits/payroll taxes	2,424,286	377,435	682,099	489,921	1,655	84,729	446,510	1,018	4,507,653
Total salaries and fringe benefits	<u>14,193,281</u>	<u>2,170,306</u>	<u>4,005,390</u>	<u>2,826,269</u>	<u>9,798</u>	<u>502,065</u>	<u>2,587,706</u>	<u>21,190</u>	<u>26,316,005</u>
Motor vehicle	557,706	65,481	593,514	123,113	45,480	43,660	185,032	87	1,614,073
Subcontract nurse	874,261	1,569	27,359	39,599	-	8,289	84,568	-	1,035,645
Food and household supplies	415,931	199	9,076	278,969	781	716	1,090	-	706,762
Depreciation	89,530	-	-	966	272,389	150,934	80,432	-	594,251
Maintenance	258,532	2,105	2,236	3,870	117,615	65,320	25,908	-	475,586
Telephone and utilities	383,481	6,815	11,993	79,925	189,449	97,109	34,344	382	803,498
Property taxes	16,640	153	-	-	12,638	34,236	-	-	63,667
Interest	12,270	200	3,313	1,066	225,925	48,207	1,001	-	291,982
Insurance	108,647	9,217	17,705	26,984	37,815	38,088	29,432	-	267,888
Program supplies	204,693	6,495	36,457	101,187	749	47,302	6,405	83	403,371
Recreation	6,109	17	5,638	3,908	-	634	1,017	-	17,323
Dues, fees and licenses	131,218	1,000	1,459	412	720	12,014	82,606	823	230,252
Rent	38,541	-	975	80,408	149,505	5,970	6,782	-	282,181
Equipment	2,808	-	200	401	-	1,016	4,087	-	8,512
Professional fees	-	-	-	60	-	4,785	132,687	-	137,532
Fundraising	-	-	-	-	-	-	-	21,175	21,175
Office supplies	23,998	2,570	5,868	34,475	3,446	17,114	76,173	8,337	171,981
Payroll processing	-	-	-	-	-	-	224,357	-	224,357
Training	52,377	2,144	200,375	21,485	104	5,249	62,928	111	344,773
Miscellaneous expenses	<u>1,484</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45</u>	<u>10</u>	<u>1,590</u>	<u>100,988</u>	<u>104,117</u>
Total functional expenses	<u>\$ 17,371,507</u>	<u>\$ 2,268,271</u>	<u>\$ 4,921,558</u>	<u>\$ 3,623,097</u>	<u>\$ 1,066,459</u>	<u>\$ 1,082,718</u>	<u>\$ 3,628,145</u>	<u>\$ 153,176</u>	<u>\$ 34,114,931</u>

See accompanying notes to financial statements.

MARRAKECH, INC.

Consolidated Statement of Cash Flows

For the year ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	<u>\$ 559,232</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	876,405
Unrealized loss on investments	62
Decrease in fair value of derivative debt agreements	17,114
(Gain) on disposal of assets	(31,765)
(Increase) in accounts receivable	(693,915)
(Increase) in prepaid expenses	(61,656)
(Increase) in other assets	(21,192)
(Decrease) in accounts payable	(50,976)
(Decrease) in accrued liabilities	(82,852)
Increase in due to grantors	392,412
Increase in due from others	31,367
Increase in deferred revenue	48,753
Total adjustments	<u>423,757</u>
Net cash provided by operating activities	<u>982,989</u>
Cash flows from investing activities:	
Purchase of investments	(14,945)
Purchase of property and equipment	<u>(1,008,288)</u>
Net cash (used) by investing activities	<u>(1,023,233)</u>
Cash flows from financing activities:	
Principal payments on loans	(493,129)
Cash proceeds from disposal of property	<u>31,765</u>
Net cash (used) by financing activities	<u>(461,364)</u>
Net (decrease) in cash	(501,608)
Cash, beginning of year	<u>3,180,234</u>
Cash, end of year	<u>\$ 2,678,626</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest expense	<u>\$ 291,982</u>

See accompanying notes to financial statements.

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2019

### 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 30th. Marrakech Residential Services, Inc.'s fiscal year ends on September 30th.

#### Summary of significant accounting policies:

##### Basis of accounting and presentation

The accounts of the Agencies are maintained, and the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting. The Agencies report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. They are described as follows:

Net assets without donor restrictions represent the portion of expendable funds that are available for support of the Agencies' operations.

Net assets with donor restrictions are specifically restricted by donors for various programs or future periods.

##### Recent accounting pronouncements adopted

The Agencies have adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 – Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* for fiscal year ended June 30, 2019.

The Agencies have adjusted the presentation of their financial statements accordingly, applying the changes retrospectively to the prior period presented. The new standard changes the following aspects of the Agencies' financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called *net assets with donor restrictions*.
- The unrestricted net asset class has been renamed *net assets without donor restrictions*.
- Certain fixed asset amounts had been classified as temporarily restricted net assets and released to unrestricted to coincide with depreciation. These amounts have been reclassified to net assets without donor restrictions.

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2019

### Recent accounting pronouncements adopted, continued

- The effect of the adoption increased net assets without donor restrictions by \$251,907, decreased net assets with donor restrictions by \$59,158 and decreased deferred revenue by \$192,749.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 2).

The changes have the following effect on balances as of June 30, 2018.

	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$5,754,983	\$ -
Temporarily restricted net assets	102,242	-
Net assets without donor restrictions	-	6,006,890
Net assets with donor restrictions	-	43,084
Deferred revenue	<u>233,747</u>	<u>40,998</u>
Total net assets	<u>\$6,090,972</u>	<u>\$6,090,972</u>

### 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.

### Operating and non-operating activities

The statement of activities presents the changes in net assets of the Agencies from operating activities and from non-operating activities. Operating revenues and expenses relate primarily to the Agencies' programs and services under various State of Connecticut grant contracts and other fee for service arrangements. The portion of investment return appropriated on long-term investments held for endowments and similar purposes under the Agencies total return spending policy is considered operating revenue.

Non-operating activities consist primarily of (a) changes in the fair value of derivative debt agreements, (b) unemployment tax refunds, and (c) state grants for capital expenditures.

### Income taxes

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, 2019

### Cash and cash equivalents

For the purpose of the consolidated statement 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, 2019.

### 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, 2019 was \$314,000.

### 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.

### Realization of long-lived assets

The Agencies evaluate 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, 2019.

### Deferred revenue

The Agencies defer grant advances and other revenue which exceed the eligible costs incurred. Grants require fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill those conditions could result in an obligation to return funds to grantors.

### 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.

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2019

### Revenue recognition

Grants and contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made. The Organization reports gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets, as support without donor restrictions if all such donor restrictions are met in the year the award is received. Gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets are reported as net assets with donor restrictions if such donor stipulations are not fully met in the year the award is received. When a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed services are recognized in the 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 initiatives.

### 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 consolidated statement of financial position 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.

### Functional allocation of expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the statement of activities and by nature and function in the statement of functional expenses. Direct expenses incurred for a specific function are directly charged to the program or supporting service category within each of the Agencies. These costs are those that can be specifically identified as being incurred for the activities of that program or supporting service. Other costs incurred that benefit more than one program or supporting service are allocated. Expenses allocated based on square footage include occupancy charges, building operations, technology, depreciation and amortization. Salaries, not directly charged, are allocated on the basis of estimates of time and effort. Employee benefits are allocated based on the program percentage of salary. Administrative and general expenses are allocated based on the percentage of individual program costs to the total with consideration given to the relative benefit derived from certain categories of administrative expense by various program groups. The Agencies reevaluate their allocation methods each year.

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2019**

**Fundraising**

Marrakech, Inc. conducts various fundraising activities during the year including various special events and appeals for donations. The total cost of fundraising activities was \$153,176 for the year ended June 30, 2019, which included salary and benefits associated with Marrakech, Inc. staff involved in fundraising activities of \$21,190.

**Subsequent events**

The Agencies have evaluated events and transactions for potential recognition or disclosure through January 30, 2020, which is the date the consolidated financial statements were available to be issued.

**NOTE 2 – LIQUIDITY AND AVAILABILITY**

The Agencies manage their liquid resources by focusing on timely billing and collection of all receivables due. The Agencies prepare budgets and monitor expenses. As part of their risk management program, the Agencies maintain certain credit line facilities to assist in meeting short term cash needs related to capital projects and programs funded on a cost reimbursement basis or by fixed term financing.

The Agencies' financial assets available within one year of the consolidated statement of financial position date for general expenditures are as follows:

Cash	\$2,678,626
Accounts receivable, net	2,495,828
Operating investments - endowment	<u>63,549</u>
	<u>\$5,238,003</u>

**NOTE 3 – 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, 2019 the cash balance exceeded the federally insured limit by \$2,321,259.

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 table shows the Agencies' highest concentrations of revenues and receivables from these grants and contracts for the year ended June 30, 2019:

	2019	
	<u>Revenue</u>	<u>Percentage of Total Receivable</u>
State of Connecticut Department of Developmental Services	65%	58%
State of Connecticut Department of Social Services	15%	12%
State of Connecticut Department of Mental Health and Addiction Services	<u>11%</u>	<u>0%</u>
	<u>91%</u>	<u>70%</u>

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2019**

**NOTE 4 – ACCOUNTS RECEIVABLE/DDS BRIDGE FUNDING ADVANCES**

Marrakech Housing Options, Inc. retains bridge funding advances from DDS to fund the cash flow requirements of the Agency’s DDS programs in the amount of \$1,995,110 as of June 30, 2019.

As shown below, these advances are offset against DDS accounts receivable on the accompanying consolidated statement of financial position.

DDS accounts receivable	\$ 3,440,231
Less: DDS advance	<u>(1,995,110)</u>
Net DDS receivable	1,445,121
Other receivables	1,364,707
Less: allowance for doubtful accounts	<u>(314,000)</u>
Accounts receivable, net	<u>\$ 2,495,828</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Components of property and equipment as of June 30, 2019 are as follows:

Furniture and equipment	\$ 1,626,217
Transportation equipment	4,037,509
Buildings, land and improvements	16,297,710
Construction-in-process	<u>30,199</u>
	21,991,635
Less: accumulated depreciation	<u>(11,586,247)</u>
Total	<u>\$ 10,405,388</u>

Depreciation expense was \$876,028 for the year ended June 30, 2019.

Construction-in-process at June 30, 2019 included costs incurred to build out program space and renovations at certain properties throughout the Agencies.

**NOTE 6 – LINES OF CREDIT**

**Citizens Bank**

Marrakech, Inc. has a revolving line of credit with Citizens Bank which expires on March 31, 2020. 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 could be withdrawn under the agreement is \$2,500,000. The interest rate was 6% as of June 30, 2019 and the balance due was \$0. The obligation has been guaranteed by each Agency.

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2019

### Lines of credit, continued

#### 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 was \$677,250. Interest on the advances were payable monthly at the lender's announced prime rate as determined by the lender for calculating interest on certain loans. The agreement expired on March 15, 2019, at which time the principal balance outstanding of \$414,000 and all accrued and unpaid interest were converted to a term loan which is included in table 7.1, schedule of debt obligations on page 19. The interest rate on the agreement prior to its expiration was 5.5%. The balance due on the term loan as of June 30, 2019 was \$411,196.

### NOTE 7 – LONG-TERM DEBT

#### Interest rate swap loans

The financing for three loans with a local bank 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 Agencies could incur additional liabilities should the agreements be terminated before maturity by Marrakech, Inc.

As of the fiscal year ended June 30, 2019, the agreements were in a net liability position totaling \$(12,024), which is shown on the Agencies' consolidated statement of financial position under long-term liabilities, as "derivative debt agreements." The Agencies have recorded a net loss related to the agreements' changes in fair value of \$(17,113) for the fiscal year ended June 30, 2019, as shown on the consolidated statement 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, 2019. Please see the schedule of debt obligations (Table 7.1) and their respective terms at the end of these footnotes.

### NOTE 8 – DDS CASH ADVANCES

When a facility commences operations, the Agency (Marrakech Housing Inc.) 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 \$599,046 as of the fiscal year ended June 30, 2019.

### NOTE 9 – OPERATING LEASES

Marrakech, Inc. maintained 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 program sponsored by the lessor. Annual base rent was \$1 plus an annual student rent of \$7,000 per year per student and was due and payable for each full month that a student resided at the premises. Marrakech, Inc. was reimbursed for the annual student rents under the program through the town the student was attending school and, as a result, there is no corresponding expense in the consolidated financial statements for the student rents. The initial agreement expired March 20, 2019 and was extended through February 29, 2020.

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.

## Notes to Consolidated Financial Statements

June 30, 2019

### Operating leases, continued

Marrakech, Inc. has operating lease agreements with the State of Connecticut to rent four homes which are used to operate CLA programs under Marrakech Housing, Inc.'s Purchase of Service (POS) contract with DDS for \$1 per year for each home. Three leases are for ten year terms and expire on July 1, 2028. One 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 lease agreements will immediately terminate upon the effective date of any termination of the POS contract.

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, 2022. Monthly rent was \$3,400 as of June 30, 2019. The rent increases by \$100 annually on January 1st.

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 for \$1,600 per month. The lease agreement expired on May 16, 2018 and continues on a month-to-month basis.

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 \$6,536 and increases by 3% annually.

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 Developmental Services (DDS) and to provide other services. Rents under these programs are substantially reimbursed by either the state agencies or by Marrakech's clients and, as a result, there is minimal corresponding rent expense in the consolidated financial statements.

Rent expense for the year ended June 30, 2019 was \$227,177.

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

2020	\$120,601
2021	75,059
2022	42,600
2023	21,600
2024	<u>-</u>
Total	<u>\$259,860</u>

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2019**

**NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at June 30, 2019 are restricted for the following purpose or period.

Time and purpose restricted:

Tuitions for students at Marrakech Academies for school year beginning in September 2019	\$ 8,500
Donations to be used for emergency unfunded and/or underfunded program needs	24,837
Robbies cause fund for the Agencies' new community residential support program to be used for supplies which are not funded under the program's purchase of service contract with the State of Connecticut	<u>12,777</u>
Total net assets with donor restrictions	<u>\$46,114</u>

**NOTE 11 – BOARD DESIGNATED NET ASSETS**

The Agencies' Boards of Directors have designated from net assets without donor restrictions \$63,549 of net assets for the following purpose as of June 30, 2019.

Endowment	<u>\$63,549</u>
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**NOTE 12 – 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) 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 net assets with donor restrictions: (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 the permanent endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by 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.

# MARRAKECH, INC.

## Notes to Consolidated Financial Statements

June 30, 2019

### Endowment, continued

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ -
Board-designated endowment funds	<u>63,549</u>	<u>-</u>	<u>63,549</u>
Total funds	<u>\$63,549</u>	<u>\$ -</u>	<u>\$63,549</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$48,666	\$ -	\$48,666
Board-designated additions	13,918	-	13,918
Net realized and unrealized appreciation	965	-	965
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$63,549</u>	<u>\$ -</u>	<u>\$63,549</u>

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, 2019.

### NOTE 13 – RETIREMENT PLAN

The Agencies sponsor a 401(k) profit sharing plan covering all eligible employees. All employees who have attained 21 years of age and completed twelve months of service are eligible to participate in the plan. Eligible employees may contribute up to the maximum amounts allowed under the plan document and current Internal Revenue Service regulations.

Annually, the Board of Directors determines the contribution, if any, to the plan. There were no contributions authorized by the Board of Directors for the year ended June 30, 2019.

### NOTE 14 – CONTINGENCIES

#### Litigation

The Agencies are subject to legal proceedings, claims and liabilities which arise in the ordinary course of business. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the Agencies' financial position or cash flows.

#### 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.

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2019**

**Grant funding for acquisition of properties, continued**

The State of Connecticut has liens on certain properties for the amounts of their respective grants which will terminate on various dates in accordance with the useful lives of the funded assets. The properties acquired and/or renovated by these state funds continue to be used for their designated purposes as of June 30, 2019.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2019

Table 7.1 - Schedule of Debt Obligations

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>Amount</u>
<u>Mortgages payable</u>				
CCO Mortgage Corporation 60 Plainfield Avenue, New Haven, Connecticut	8.25%	\$ 270	07/01/30	\$ 23,318
CCO Mortgage Corporation 615-617 Whalley Avenue, New Haven, Connecticut	8.25%	338	08/01/30	29,410
CCO Mortgage Corporation 106-108 Hobart Street, New Haven, Connecticut	6.50%	484	09/01/31	48,702
CCO Mortgage Corporation 158R Meetinghouse Road, Durham, Connecticut	5.50%	1,416	03/01/36	185,075
CCO Mortgage Corporation 27-29 Robbins Street, Waterbury, Connecticut	5.63%	1,151	05/01/36	150,115
CCO Mortgage Corporation 85 Talmadge Hill Road, Prospect, Connecticut	5.88%	2,395	08/01/36	309,460
CCO Mortgage Corporation 88-90 Sherman Avenue, New Haven, Connecticut	5.63%	1,891	11/01/36	250,712
CCO Mortgage Corporation 25 Kreger Drive, Wolcott, Connecticut	5.63%	1,917	06/01/37	259,321
CCO Mortgage Corporation 32-34 Plant Street, New Haven, Connecticut	4.13%	894	10/01/40	151,695
Citizens Bank * 514-526 Whalley Avenue, New Haven, Connecticut	5.96%	2,626	05/18/21	54,268
Citizens Bank * 60 Knollwood Drive, New Haven, Connecticut	4.86%	1,099	12/22/21	160,535
Citizens Bank * 50 Oak Tree Avenue, Waterbury, Connecticut	4.86%	4,215	12/22/21	485,283
Connecticut Department of Developmental Services 25 Kreger Drive, Wolcott, Connecticut	6.00%	1,441	07/01/38	195,758
Connecticut Department of Developmental Services 85 Talmadge Hill Road, Prospect, Connecticut	6.00%	177	07/01/24	9,144
Connecticut Housing Finance Authority 21 Victor Hill Road, Branford, Connecticut	7.34%	2,017	09/01/26	135,778
Connecticut Housing Finance Authority 33 Lake Street, West Haven, Connecticut	6.93%	2,343	07/16/27	174,904
Connecticut Housing Finance Authority 92 Hurd Road, Trumbull, Connecticut	6.63%	1,734	10/01/30	165,538
Connecticut Housing Finance Authority 92 View Terrace, East Haven, Connecticut	6.63%	1,740	10/01/30	166,128
Connecticut Housing Finance Authority 2 Anton Circle, Bridgeport, Connecticut	5.75%	2,425	01/01/33	273,865
Connecticut Housing Finance Authority 29 Briarwood Terrace, Middlebury, Connecticut	3.00%	1,939	01/01/47	436,170
Connecticut Housing Finance Authority 102 Harwinton Avenue, Plymouth, Connecticut	3.00%	1,782	01/01/47	400,917
Wells Fargo Bank (f/k/a Wachovia Bank) 615-617 Whalley Avenue, New Haven, Connecticut	7.25%	1,141	08/01/19	4,355
Wells Fargo Bank (f/k/a Wachovia Bank) 450 Island Lane, West Haven, Connecticut	7.15%	10,957	10/27/21	<u>281,513</u>
Total mortgages payable				4,351,964
Less: current portion				<u>(323,151)</u>
Total mortgages payable, net of current portion				<u>\$ 4,028,813</u>

\* Mortgage is financed under an interest rate swap agreement. See Note 1 under "Derivative debt agreements and interest rate risk management" and Note 7 under "Interest rate swap loans".

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2019

Table 7.1 - Schedule of Debt Obligations, Continued

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>Amount</u>
<u>Loans payable</u>				
Key Bank/improvements to property acquired with loan proceeds (see Note 6)	5.71%	\$ 2,910	04/15/39	\$ 411,196
Key Bank				
Corporate assets	4.00%	9,208	07/01/21	150,581
Connecticut Department of Developmental Services Unsecured	6.00%	272	04/01/26	17,870
Connecticut Department of Developmental Services Unsecured	6.00%	91	04/01/26	5,990
Connecticut Department of Developmental Services Unsecured	6.00%	112	04/01/26	7,378
Connecticut Department of Developmental Services Unsecured	6.00%	304	04/01/21	5,763
Connecticut Department of Developmental Services Unsecured	6.00%	148	04/01/31	14,907
Connecticut Department of Developmental Services Unsecured	6.00%	517	04/01/21	9,823
Connecticut Department of Developmental Services Unsecured	6.00%	120	04/01/26	7,902
Connecticut Department of Developmental Services Unsecured	6.00%	287	04/01/21	5,454
Connecticut Department of Developmental Services Unsecured	6.00%	119	07/01/22	3,912
Connecticut Department of Developmental Services Unsecured	6.00%	230	07/01/32	24,821
Connecticut Department of Developmental Services Unsecured	6.00%	199	04/11/37	26,065
Connecticut Department of Developmental Services Unsecured	6.00%	214	09/01/32	23,282
Connecticut Department of Developmental Services Unsecured	6.00%	573	09/01/24	30,464
Connecticut Department of Developmental Services Unsecured	6.00%	143	09/01/37	18,996
Connecticut Department of Developmental Services Unsecured	6.00%	506	09/01/32	55,215
Connecticut Department of Developmental Services Unsecured	6.00%	174	09/01/27	13,456
Connecticut Department of Developmental Services Unsecured	6.00%	445	12/01/32	<u>49,120</u>
Total loans payable				882,195
Less: current portion				<u>(150,944)</u>
Total loans payable, net of current portion				<u>\$ 731,251</u>

**MARRAKECH, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2019**

**Table 7.1 - Schedule of Debt Obligations, Continued**

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

2020	\$ 474,095
2021	426,830
2022	277,097
2023	245,361
2024	256,679
Thereafter	<u>3,554,097</u>
	<u>\$ 5,234,159</u>

Interest expense related to the above mortgages, loans and the lines of credit for the year ended June 30, 2019 was \$291,982.

**SUPPLEMENTARY INFORMATION**

## MARRAKECH, INC.

## Consolidated Supporting Schedule of Operating Revenue

For the year ended June 30, 2019

Department of Developmental Services	\$ 22,686,763
Department of Mental Health and Addiction Services	3,741,513
Department of Social Services Room and Board	3,791,688
ABI revenue	1,462,211
DCF Work/Learn and Children Services programs	531,950
Board of Education	504,446
Other revenue, net of gains and losses on disposals of assets	305,303
BRS revenue	92,875
Rental revenue	270,443
Caning revenue	212,869
HSTP revenue	117,900
BESB revenue	<u>12,786</u>
	<u>\$ 33,730,747</u>