

MARRAKECH, INC.

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

June 30, 2020 and 2019

MARRAKECH, INC.

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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, 2020 and 2019, and the related consolidated statements of activities, functional expenses, 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, 2020 and 2019, 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 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 27, 2021 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.

Guilmadio D'Am + Sokolowski, LLC

Middletown, Connecticut

January 27, 2021

MARRAKECH, INC.

Consolidated Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 3,282,196	\$ 2,678,626
Accounts receivable, net of allowance for doubtful accounts of \$338,000 in 2020 and \$314,000 in 2019	2,832,289	2,495,828
Prepaid expenses	<u>469,726</u>	<u>646,562</u>
Total current assets	<u>6,584,211</u>	<u>5,821,016</u>
Property and equipment, net	<u>10,314,640</u>	<u>10,405,388</u>
Other assets:		
Investments - endowment	65,873	63,549
Other assets	<u>44,178</u>	<u>48,241</u>
Total other assets	<u>110,051</u>	<u>111,790</u>
Total assets	<u>\$ 17,008,902</u>	<u>\$ 16,338,194</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 318,245	\$ 392,290
Accrued liabilities	3,178,756	2,323,480
Due to grantors	1,071,784	1,078,238
Deferred revenue	31,591	89,751
Current portion of mortgages and loans payable	<u>568,866</u>	<u>474,095</u>
Total current liabilities	<u>5,169,242</u>	<u>4,357,854</u>
Long-term liabilities:		
Mortgages payable, less current portion	3,690,123	4,028,813
Loans payable, less current portion	949,990	731,251
Derivative debt agreements	21,366	12,024
DDS cash advances	<u>599,046</u>	<u>599,046</u>
Total long-term liabilities	<u>5,260,525</u>	<u>5,371,134</u>
Total liabilities	<u>10,429,767</u>	<u>9,728,988</u>
Net assets:		
Without donor restrictions:		
Undesignated	6,467,711	6,499,543
Board designated	<u>65,873</u>	<u>63,549</u>
Total without donor restrictions	<u>6,533,584</u>	<u>6,563,092</u>
With donor restrictions:		
Restricted donations	<u>45,551</u>	<u>46,114</u>
Total with donor restrictions	<u>45,551</u>	<u>46,114</u>
Total net assets	<u>6,579,135</u>	<u>6,609,206</u>
Total liabilities and net assets	<u>\$ 17,008,902</u>	<u>\$ 16,338,194</u>

See accompanying notes to financial statements.

MARRAKECH, INC.

Consolidated Statements of Activities

For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Unrestricted revenue and other support:		
Operating revenue (Schedule 1)	\$ 36,714,680	\$ 33,730,747
Donations and fundraising	315,889	272,959
Net assets released from restrictions	<u>21,277</u>	<u>43,084</u>
Total unrestricted revenue and other support	<u>37,051,846</u>	<u>34,046,790</u>
Operating expenses:		
Program services:		
Residential services	19,757,393	17,371,507
In home support services	2,397,606	2,268,271
Day services	5,605,978	4,921,558
Mental health services	3,596,482	3,623,097
Housing services	1,011,552	1,066,459
Other program services	<u>967,477</u>	<u>1,082,718</u>
Total program services	<u>33,336,488</u>	<u>30,333,610</u>
Supporting services:		
Administrative and general	3,698,298	3,628,145
Fundraising expenses	<u>146,630</u>	<u>153,176</u>
Total supporting services	<u>3,844,928</u>	<u>3,781,321</u>
Total operating expenses	<u>37,181,416</u>	<u>34,114,931</u>
Change in net assets without donor restrictions from operations	<u>(129,570)</u>	<u>(68,141)</u>
Non-operating activities:		
Change in fair value of derivative debt agreements	(9,342)	(17,113)
Unemployment tax refunds	49,267	119,477
State grants for capital projects	<u>60,137</u>	<u>521,979</u>
Total non-operating activities	<u>100,062</u>	<u>624,343</u>
Change in net assets without donor restrictions	(29,508)	556,202
Net assets without donor restrictions, beginning of year	<u>6,563,092</u>	<u>6,006,890</u>
Net assets without donor restrictions, end of year	<u>\$ 6,533,584</u>	<u>\$ 6,563,092</u>
Donations	\$ 20,714	\$ 46,114
Net assets released from donor restrictions	<u>(21,277)</u>	<u>(43,084)</u>
Change in net assets with donor restrictions	<u>(563)</u>	<u>3,030</u>
Net assets with donor restrictions, beginning of year	<u>46,114</u>	<u>43,084</u>
Net assets with donor restrictions, end of year	<u>\$ 45,551</u>	<u>\$ 46,114</u>
Total change in net assets	<u>\$ (30,071)</u>	<u>\$ 559,232</u>

See accompanying notes to financial statements.

MARRAKECH, INC.

Consolidated Statement of Functional Expenses

For the year ended June 30, 2020
(with comparative totals for 2019)

	Program Services						Supporting Services		2020 Total	2019 Total
	Residential Services	In Home Support Services	Day Services	Mental Health Services	Housing Services	Other Programs	Administrative and General	Fundraising		
Salaries and wages	\$ 13,887,320	\$ 1,947,999	\$ 4,023,540	\$ 2,470,622	\$ 13,187	\$ 319,602	\$ 2,265,490	\$ 26,309	\$ 24,954,069	\$ 21,808,352
Fringe benefits/payroll taxes	2,529,677	353,139	732,828	444,147	2,510	52,725	435,534	4,681	4,555,241	4,507,653
Total salaries and fringe benefits	16,416,997	2,301,138	4,756,368	2,914,769	15,697	372,327	2,701,024	30,990	29,509,310	26,316,005
Motor vehicle	417,710	52,807	405,585	87,817	27,665	14,570	148,256	52	1,154,462	1,331,649
Subcontract nurse	994,885	2,455	24,168	37,016	-	887	109,655	910	1,169,976	1,035,645
Food and household supplies	419,396	2,368	3,838	210,991	508	1,277	3,190	46	641,614	706,762
Depreciation	221,121	-	139,271	1,032	274,030	192,427	103,272	-	931,153	876,028
Maintenance	241,940	2,579	2,207	5,072	107,255	48,447	20,374	-	427,874	476,233
Telephone and utilities	388,205	5,419	10,494	82,295	180,559	99,055	31,335	382	797,744	803,498
Property taxes	16,705	-	-	-	13,235	34,640	50	-	64,630	63,667
Interest	11,012	85	2,727	631	215,250	38,545	1,068	-	269,318	291,982
Insurance	114,432	8,641	20,917	25,557	37,583	37,779	29,647	70	274,626	267,888
Program supplies	295,928	15,745	36,991	96,515	1,432	61,500	13,104	26,072	547,287	403,371
Recreation	7,172	54	3,505	5,872	-	333	-	-	16,936	17,323
Dues, fees and licenses	122,222	201	8,238	778	428	2,113	28,444	2,651	165,075	230,252
Rent	20,540	-	2,731	64,901	134,130	15,248	4,835	-	242,385	282,181
Equipment	1,390	1,130	97	1,595	-	491	1,881	-	6,584	8,512
Professional fees	-	-	-	-	-	636	149,303	-	149,939	137,532
Fundraising	50	-	-	-	-	-	152	8,111	8,313	21,175
Office supplies	24,049	1,078	4,732	16,028	2,287	9,914	70,417	5,398	133,903	171,981
Payroll processing	7,322	3,001	1,880	33,875	-	12,908	197,802	4,285	261,073	224,357
Training	19,293	905	182,229	11,533	-	4,108	70,221	266	288,555	344,773
Miscellaneous expenses	17,024	-	-	205	1,493	20,272	14,268	67,397	120,659	104,117
Total functional expenses	\$ 19,757,393	\$ 2,397,606	\$ 5,605,978	\$ 3,596,482	\$ 1,011,552	\$ 967,477	\$ 3,698,298	\$ 146,630	\$ 37,181,416	\$ 34,114,931

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	433,807	65,481	466,325	100,695	45,480	43,660	176,114	87	1,331,649
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	213,159	-	127,189	23,384	272,086	150,860	89,350	-	876,028
Maintenance	258,802	2,105	2,236	3,870	117,918	65,394	25,908	-	476,233
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	1,484	-	-	-	45	10	1,590	100,988	104,117
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 Statements of Cash Flows

For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (30,071)	\$ 559,232
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	931,153	876,028
Unrealized (gain) loss on investments	(978)	62
Decrease in fair value of derivative debt agreements	9,342	17,113
Loss (gain) on disposal of assets	8,946	(31,764)
(Increase) in accounts receivable	(337,713)	(693,915)
Decrease (increase) in prepaid expenses	176,836	(61,656)
Decrease (increase) in other assets	4,063	(21,192)
(Decrease) in accounts payable	(74,045)	(50,976)
Increase (decrease) in accrued liabilities	855,278	(82,852)
(Decrease) increase in due to grantors	(6,454)	392,412
Decrease in due from others	1,252	31,367
(Decrease) increase in deferred revenue	(58,160)	48,753
Total adjustments	<u>1,509,520</u>	<u>423,380</u>
Net cash provided by operating activities	<u>1,479,449</u>	<u>982,612</u>
Cash flows from investing activities:		
Purchase of investments	(1,346)	(14,945)
Purchase of property and equipment	(859,157)	(1,007,911)
Net cash (used) by investing activities	<u>(860,503)</u>	<u>(1,022,856)</u>
Cash flows from financing activities:		
Proceeds of long-term debt	486,952	-
Principal payments on loans	(512,132)	(493,129)
Cash proceeds from disposal of property	9,804	31,765
Net cash (used) by financing activities	<u>(15,376)</u>	<u>(461,364)</u>
Net increase (decrease) in cash	603,570	(501,608)
Cash, beginning of year	<u>2,678,626</u>	<u>3,180,234</u>
Cash, end of year	<u>\$ 3,282,196</u>	<u>\$ 2,678,626</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	<u>\$ 269,318</u>	<u>\$ 291,982</u>

See accompanying notes to financial statements.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 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 Organization).

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:

Principles of consolidation

The consolidated financial statements of Marrakech, Inc. and its sister corporations as described above are collectively referred to as the Organization. Interorganizational accounts and transactions have been eliminated in consolidation.

Basis of accounting and presentation

The accounts of the Organization are maintained, and the consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting. The Organization reports information regarding its 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 - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Board-Designated net assets - The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Recent accounting pronouncements adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* including amendments. This update establishes a comprehensive revenue recognition standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization implemented this ASU using a modified retrospective method of application as of July 1, 2019.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Recent accounting pronouncements adopted, continued

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. If the transaction is deemed to be a contribution, the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU will assist in the determination of the nature of the transaction, which will then govern the revenue and expense recognition methodology and timing of the transaction. This ASU was adopted on July 1, 2019.

The adoption of these standards did not have a material impact on our financial position or results of operations for any periods presented and a cumulative adjustment was not recorded to our beginning net asset balance.

Use of estimates

The preparation of the Organization's 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 consolidated statements of activities presents the changes in net assets of the Organization from operating activities and from non-operating activities. Operating revenues and expenses relate primarily to the Organization's 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 Organization's 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 Organization has received exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Management has reviewed the Organization's 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 Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Organization had no cash equivalents as of June 30, 2020 and 2019.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Investment held by Community Foundation

The Organization maintains its endowment funds in an investment account administered by The Community Foundation of Greater New Haven, Inc. (the Foundation). The agreement provides that the Organization may receive distributions from the account on a quarterly, semi-annual or annual schedule at a percentage or set dollar amount of the fair market value of the fund as of the prior fiscal year end date for the coming fiscal year. Alternatively, the Organization may elect to receive regular distributions in accordance with the Foundation's Spending Rule Policy. The Organization may request that additional funds be distributed subject to up to 60 days prior written notice to the Foundation, depending on the amount of additional funds requested. As of June 30, 2020, the Organization has elected to not receive any distributions for the fiscal years ended June 30, 2020 and 2019.

The endowment funds are carried at fair value as discussed in Note 5. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income (loss) is reported net of expenses, which totaled \$2,324 and \$965 for the years ended June 30, 2020 and 2019, respectively. Changes to the carrying amount of the endowment funds are recognized as increases or decreases in net assets without donor restrictions. The Organization has delegated to the Foundation full authority to determine the asset allocation and to supervise the investment managers of the Organization's investment.

Accounts receivable

The Organization has accounts receivable primarily 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, 2020 and 2019 was \$338,000 and \$314,000, respectively.

Property and equipment

The Organization follows the practice of capitalizing all property and equipment with a cost exceeding \$2,500 or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a range in lives from 3 to 30 years. Repairs and maintenance are charged to expense as incurred.

Realization of long-lived assets

The Organization evaluates 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, 2020 and 2019.

Refundable advances

The Organization presents refundable advances when grant advances and other revenue exceed the eligible costs incurred. Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of 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.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Derivative debt agreements and interest rate risk management, continued

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.

Revenue recognition

Contributions

The Organization receives contributions to support operating activities, endowments and capital projects. These contributions can be from individuals, foundations, corporations or trusts. The Organization records contributions receivable, net of allowances for estimated uncollectable amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was received. Conditional gifts with a measurable performance or other barrier and right of return are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor.

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 consolidated statements of activities as net assets released from restrictions.

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 Organization's mission and fundraising campaign.

Government grant and contracts

The Organization receives grant and contract funding from various federal and state governments, which may be considered exchange transactions or contributions. The funding received is to provide a variety of program services to the public based on certain performance requirements included in the agreement and/or the incurrence of allowable qualifying expenses and other requirements. Grants and contracts considered to be contributions are representative of nonreciprocal transactions and include conditions stipulated by the government agencies and are, therefore, accounted for as conditional contributions. Public support is recognized as revenue when conditions are satisfied, typically when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization recognizes grants and contracts considered to be exchange transactions once the performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. The revenue recognized would be reported at the amount reflecting the consideration the Organization expects to receive in exchange for the services provided.

Conditional government grants and contracts not recognized as of June 30, 2020 totaled \$17,853,186.

Special events

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Organization recognizes special events revenue equal to the fair value of direct benefits to the donors when the special event takes place. The Organization recognizes the contribution element of special events revenue immediately, unless there is a right of return if the special event does not take place.

MARRAKECH, INC.

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Individual contracts/Private pay services/LEA funded services

The Organization recognizes revenue from individual contracts, private pay services and local education agency (LEA) funded services.

Individual contracts comprise of a contract between the Organization and an outside company for services to be performed by the Organization's program participants. This was put into place as an alternative to an outside company directly hiring the program participants and is most often utilized for group employment situations (i.e. work/cleaning crews).

Private pay services comprise of a contract between the Organization and a customer looking to set up services traditionally funded by one of the Organization's state funded agencies (i.e. DDS, DMHAS). Most often, the customer does not qualify for a state funded program and is therefore privately paying for the service.

LEA funded services include residential and employment focused programming for students who are nearing their transition/graduation. These individuals have been identified by their school district as being eligible for services outside of the school setting. This may range from after-school support services to 24/7 residential placement.

In all situations, a contract for the services is required prior to the service being rendered, unless both parties agree to an extension of a currently agreed upon contract. The contract is approved by both parties, most often via electronic signature using DocuSign. The contract outlines the work to be performed and/or services to be provided by the Organization. The contract also includes the frequency of services and the agreed upon rate. Lastly, the contract outlines that both parties have the right to cancel the contract at any time.

Because the Organization's performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), *Revenue from Contracts with Customers*, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. There are no incremental costs of obtaining a contract and no significant financing components.

Cost settlement

The Organization is 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 statements of financial position in "Due to grantors."

Endowment and spending policy

The Organization has 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 Organization's 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 Organization assumes a conservative level of investment risk and holds their investments in a professionally managed investment account consisting of global equity and bond funds and private assets. This is consistent with the Organization's 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 Organization's use and the endowment is completely revocable.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

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Functional allocation of expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the consolidated statements of activities and by nature and function in the consolidated statements of functional expenses. The Organization charges direct expenses incurred for a specific function directly to the program or supporting service category within each of the Organizations. 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 Organization reevaluates its allocation methods each year.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

NOTE 2 – CONTRACTS WITH CUSTOMERS

The opening and closing balances of the Organization's contract assets pertaining to its contracts with the customers are as follows:

	<u>2020</u>
Accounts receivable from contracts with individuals, private pay services and local education agencies	
Opening July 1, 2018	\$ 78,292
Closing June 30, 2019	<u>106,111</u>
Increase	<u>\$ 27,819</u>
Opening July 1, 2019	\$106,111
Closing June 30, 2020	<u>30,500</u>
(Decrease)	<u>\$ (75,611)</u>

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Organization manages its liquid resources by focusing on timely billing and collection of all receivables due. The Organization prepares budgets and monitors expenses. As part of their risk management program, the Organization maintains 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 Organization's financial assets available within one year of the consolidated statements of financial position date for general expenditures are as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$3,282,196	\$2,678,626
Accounts receivable, net	2,832,289	2,495,828
Operating investments - endowment	<u>65,873</u>	<u>63,549</u>
	<u>\$6,180,358</u>	<u>\$5,238,003</u>

MARRAKECH, INC.

Notes to Consolidated Financial Statements

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NOTE 4 – CONCENTRATIONS

The Organization maintains its cash balances with high-credit quality financial institutions. At times, such amounts may exceed federal depository insurance limits. At June 30, 2020 the cash balance exceeded the federally insured limit by \$2,566,674.

A substantial portion of the Organization's 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 Organization's highest concentrations of revenues and receivables from these grants and contracts for the years ended June 30, 2020 and 2019:

	2020	
	<u>Revenue</u>	<u>Receivable</u>
State of Connecticut Department of Developmental Services	70%	72%
State of Connecticut Department of Social Services	14%	12%
State of Connecticut Department of Mental Health and Addiction Services	<u>10%</u>	<u>0%</u>
	<u>94%</u>	<u>84%</u>

	2019	
	<u>Revenue</u>	<u>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>

NOTE 5 – FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access;

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

MARRAKECH, INC.

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Fair value measurement, continued

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value.

Pooled funds: Pooled funds are commingled funds that consist of assets valued at the net asset value per unit. The net asset value (NAV) of each unit is calculated based on the most recently reported values of the investments of the commingled fund assets. The fair value of the Organization's endowment fund is provided by the Foundation and represents the Organization's pro rata share of the value of the underlying investments.

The Organization's investment held by the Community Foundation for Greater New Haven, Inc. is considered to be a level 2 investment.

There have been no changes in the methodology used at June 30, 2020 or 2019.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2020.

<u>Description</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pooled funds	<u>\$65,873</u>	<u>\$ -</u>	<u>\$65,873</u>	<u>\$ -</u>
Total assets at fair value	<u>\$65,873</u>	<u>\$ -</u>	<u>\$65,873</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2019.

<u>Description</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pooled funds	<u>\$63,549</u>	<u>\$ -</u>	<u>\$63,549</u>	<u>\$ -</u>
Total assets at fair value	<u>\$63,549</u>	<u>\$ -</u>	<u>\$63,549</u>	<u>\$ -</u>

There were no transfers of investments between levels during the years ended June 30, 2020 and 2019.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

NOTE 6 – ACCOUNTS RECEIVABLE/DDS BRIDGE FUNDING ADVANCES

Marrakech Housing Options, Inc. retains bridge funding advances from DDS to fund the cash flow requirements of the Organization's DDS programs in the amount of \$1,995,110 as of June 30, 2020 and 2019.

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

	<u>2020</u>	<u>2019</u>
DDS accounts receivable	\$ 4,035,253	\$ 3,440,231
Less: DDS advance	<u>(1,995,110)</u>	<u>(1,995,110)</u>
Net DDS receivable	2,040,143	1,445,121
DDS room and board	332,734	304,684
Other receivables	797,412	1,060,023
Less: allowance for doubtful accounts	<u>(338,000)</u>	<u>(314,000)</u>
Accounts receivable, net	<u>\$ 2,832,289</u>	<u>\$ 2,495,828</u>

NOTE 7 – PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 1,664,730	\$ 1,626,217
Transportation equipment	4,356,617	4,037,509
Buildings, land and improvements	16,580,726	16,297,710
Construction-in-process	<u>128,239</u>	<u>30,199</u>
	22,730,312	21,991,635
Less: accumulated depreciation	<u>(12,415,672)</u>	<u>(11,586,247)</u>
Total	<u>\$ 10,314,640</u>	<u>\$ 10,405,388</u>

Depreciation expense was \$931,153 and \$876,028 for the years ended June 30, 2020 and 2019, respectively.

Construction-in-process at June 30, 2020 included costs incurred for renovations in process at certain properties throughout the Organization and retro-fitting of newly acquired vans at year end.

NOTE 8 – LINES OF CREDIT

Citizens Bank

Marrakech, Inc. has a revolving line of credit with Citizens Bank which expires on March 31, 2021. 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 3.75% and 6.00% as of June 30, 2020 and 2019, respectively and the balance due was \$0 in both years. The obligation has been guaranteed by each Organization and collateral for balances under the line of credit are all business assets of Marrakech, Inc.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

NOTE 9 – LONG-TERM DEBT

Interest rate swap agreements

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

As of the fiscal years ended June 30, 2020 and 2019, the agreements were in a net liability position totaling \$(21,366) and \$(12,024), respectively, which is shown on the Organization’s consolidated statements of financial position under long-term liabilities, as “derivative debt agreements.” The Organization has recorded a net loss related to the agreements’ changes in fair value of \$(9,342) and \$(17,113) for the fiscal years ended June 30, 2020 and 2019, respectively, 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 Organization has additional mortgages and notes payable as of June 30, 2020 and 2019. Please see the consolidated schedule of debt obligations (Table 9.1) and their respective terms at the end of these footnotes.

NOTE 10 – DDS CASH ADVANCES

When a facility commences operations, the Organization (Marrakech Housing Options, 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 years ended June 30, 2020 and 2019.

NOTE 11 – OPERATING LEASES

Marrakech, Inc. maintained a lease agreement with a related party (see Note 16) 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 in monthly installments of \$583 per student for each month that a student resided at the premises. Marrakech, Inc. was reimbursed for the annual student rents under the program through a combination of funding from the towns’ Board’s of Education which the respective students were attending school and through the Connecticut Department of Disability Services, respite services funding. The lease agreement expires on June 30, 2021.

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 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. The leases are for ten year terms of which three leases expire on July 1, 2028 and one lease expires on January 2, 2030. 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, 2020. The rent increases by \$100 annually on January 1st. The landlord for this lease had agreed to reduce the rent by \$4,100 and \$600 during the fiscal years ending June 30, 2021 and 2022, respectively due to the Coronavirus pandemic.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Operating leases, continued

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 was \$6,536 as of June 30, 2020. See Note 19 Subsequent Events for a discussion of the renewal of this lease after June 30, 2020.

Marrakech, Inc. has an operating lease agreement with an unrelated party to rent property in Bridgeport, Connecticut used for its Bridgeport Academy. Monthly rent was \$1,900 as of June 30, 2020. The agreement began February 1, 2020 for a period of five years thru January 31, 2025. The rent will increase by 5% in the third year of the lease through expiration.

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 years ended June 30, 2020 and 2019 was \$ 224,643 and \$227,177, respectively.

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

2021	\$114,762
2022	64,803
2023	44,878
2024	24,442
2025	<u>14,666</u>
Total	<u>\$263,551</u>

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Time and purpose restricted:		
Tuition for students at Marrakech Academies for school year beginning in September 2020	\$ -	\$ 8,500
Donations to be used for emergency unfunded and/or underfunded program needs	24,837	24,837
Robbies Cause fund for the Organization's 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	-	12,777
Donation to be used for energy efficient expenditures	9,714	-
Donation for Covid Personal Protective Equipment	<u>11,000</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$45,551</u>	<u>\$46,114</u>

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

NOTE 13 – BOARD DESIGNATED NET ASSETS

The Organization's Boards of Directors have designated from net assets without donor restrictions for the following purpose as of June 30.

	<u>2020</u>	<u>2019</u>
Endowment	<u>\$65,873</u>	<u>\$63,549</u>

NOTE 14 – ENDOWMENT

The Organization's 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 Organization classifies 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 Organization considers 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 Organization 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 Organization.
7. The investment policies of the Organization.

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ -
Board-designated endowment funds	<u>65,873</u>	<u>-</u>	<u>65,873</u>
Total funds	<u>\$65,873</u>	<u>\$ -</u>	<u>\$65,873</u>

MARRAKECH, INC.

Notes to Consolidated Financial Statements

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Endowment, continued

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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, 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$63,549	\$ -	\$63,549
Board-designated additions	-	-	-
Net realized and unrealized appreciation	2,324	-	2,324
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$65,873</u>	<u>\$ -</u>	<u>\$65,873</u>

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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 Organization to retain as a fund of perpetual duration. As there were no donor-restricted endowment funds, there were no deficiencies as of June 30, 2020 and 2019.

NOTE 15 – RETIREMENT PLAN

The Organization sponsors 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 years ended June 30, 2020 and 2019.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

NOTE 16 – RELATED PARTY TRANSACTION

A member of the Organization's Board of Directors, who is also the CEO and President, is a member of the Board of Directors of another nonprofit entity and as such is a related party to Marrakech. Marrakech leases a home which is owned by the related party, for an educational and housing program. Marrakech also pays the related party Special Education & Behavioral Services fees (consulting fees) as part of its program for the residents of the home. Marrakech paid rent and consulting fees to the related party of \$20,849 and \$22,415 during the fiscal year ended June 30, 2020, respectively and \$20,849 and \$25,317 during the fiscal year ended June 30, 2019, respectively.

NOTE 17 – CONTINGENCIES

Litigation

The Organization is 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 Organization's 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 Organization 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 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, 2020.

NOTE 18 – RISKS AND UNCERTAINTIES

Recently, the outbreak of the novel coronavirus has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. Depending on the severity and length of the outbreak, the novel coronavirus could present material uncertainty and risk with respect to this entity and its operations and financial results.

NOTE 19 – SUBSEQUENT EVENTS

Lease renewal

On September 9, 2020, Marrakech, Inc. renewed its lease to rent property in New Milford, Connecticut for use for certain Day programs. The lease extension goes through November 31, 2025. The current rent will be maintained through November 31, 2022, after which the rent increases by 1.5% with each annual lease term. Monthly rent ranges from \$6,732 to \$7,039 through expiration of the renewed lease.

Evaluation of subsequent events

The Organization has evaluated events and transactions for potential recognition or disclosure through January 27, 2021, which is the date the consolidated financial statements were available to be issued.

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Table 9.1 - Consolidated Schedule of Debt Obligations

<u>Lender/Collateral</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>2020</u>	<u>2019</u>
<u>Mortgages payable</u>					
CCO Mortgage Corporation 60 Plainfield Avenue, New Haven, Connecticut	8.25%	\$ 270	07/01/30	\$ 21,937	\$ 23,318
CCO Mortgage Corporation 615-617 Whalley Avenue, New Haven, Connecticut	8.25%	338	08/01/30	27,717	29,410
CCO Mortgage Corporation 106-108 Hobart Street, New Haven, Connecticut	6.50%	484	09/01/31	45,985	48,702
CCO Mortgage Corporation 158R Meetinghouse Hill Road, Durham, Connecticut	5.50%	1,416	03/01/36	178,094	185,075
CCO Mortgage Corporation 27-29 Robbins Street, Waterbury, Connecticut	5.63%	1,151	05/01/36	144,602	150,115
CCO Mortgage Corporation 85 Talmadge Hill Road, Prospect, Connecticut	5.88%	2,395	08/01/36	298,610	309,460
CCO Mortgage Corporation 88-90 Sherman Avenue, New Haven, Connecticut	5.63%	1,891	11/01/36	241,896	250,712
CCO Mortgage Corporation 25 Kreger Drive, Wolcott, Connecticut	5.63%	1,917	06/01/37	250,684	259,321
CCO Mortgage Corporation 32-34 Plant Street, New Haven, Connecticut	4.13%	894	10/01/40	147,137	151,695
Citizens Bank * 514-526 Whalley Avenue, New Haven, Connecticut	5.96%	2,626	05/18/21	25,302	54,268
Citizens Bank * 60 Knollwood Drive, New Haven, Connecticut	4.86%	1,099	12/22/21	154,275	160,535
Citizens Bank * 50 Oak Tree Avenue, Waterbury, Connecticut	4.86%	4,215	12/22/21	455,387	485,283
Connecticut Department of Developmental Services 25 Kreger Drive, Wolcott, Connecticut	6.00%	1,441	07/01/38	190,057	195,758
Connecticut Department of Developmental Services 85 Talmadge Hill Road, Prospect, Connecticut	6.00%	177	07/01/24	7,527	9,144
Connecticut Housing Finance Authority 21 Victor Hill Road, Branford, Connecticut	7.34%	2,017	09/01/26	121,046	135,778
Connecticut Housing Finance Authority 33 Lake Street, West Haven, Connecticut	6.93%	2,343	07/16/27	158,403	174,904
Connecticut Housing Finance Authority 92 Hurd Road, Trumbull, Connecticut	6.63%	1,734	10/01/30	155,393	165,538
Connecticut Housing Finance Authority 92 View Terrace, East Haven, Connecticut	6.63%	1,740	10/01/30	155,947	166,128
Connecticut Housing Finance Authority 2 Anton Circle, Bridgeport, Connecticut	5.75%	2,425	01/01/33	260,159	273,865
Connecticut Housing Finance Authority 29 Briarwood Terrace, Middlebury, Connecticut	3.00%	1,939	01/01/47	425,848	436,170
Connecticut Housing Finance Authority 102 Harwinton Avenue, Plymouth, Connecticut	3.00%	1,782	01/01/47	391,429	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>166,720</u>	<u>281,513</u>
Total mortgages payable				4,024,155	4,351,964
Less: current portion				<u>(334,032)</u>	<u>(323,151)</u>
Total mortgages payable, net of current portion				<u>\$ 3,690,123</u>	<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 8 under "Interest rate swap agreements".

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Table 9.1 - Consolidated Schedule of Debt Obligations, Continued

<u>Lender/Collateral</u>		<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>2020</u>	<u>2019</u>
	<u>Loans payable</u>					
Key Bank						
Corporate assets		5.71%	\$ 2,910	04/15/39	\$ 399,845	\$ 411,196
Key Bank						
Corporate assets		4.00%	9,208	07/01/21	37,857	150,581
Connecticut Department of Developmental Services		6.00%	272	04/01/26	15,622	17,870
Unsecured						
Connecticut Department of Developmental Services		6.00%	91	04/01/26	5,237	5,990
Unsecured						
Connecticut Department of Developmental Services		6.00%	112	04/01/26	6,450	7,378
Unsecured						
Connecticut Department of Developmental Services		6.00%	304	04/01/21	2,374	5,763
Unsecured						
Connecticut Department of Developmental Services		6.00%	148	04/01/31	13,997	14,907
Unsecured						
Connecticut Department of Developmental Services		6.00%	517	04/01/21	4,047	9,823
Unsecured						
Connecticut Department of Developmental Services		6.00%	120	04/01/26	6,908	7,902
Unsecured						
Connecticut Department of Developmental Services		6.00%	287	04/01/21	2,247	5,454
Unsecured						
Connecticut Department of Developmental Services		6.00%	119	07/01/22	2,685	3,912
Unsecured						
Connecticut Department of Developmental Services		6.00%	230	07/01/32	23,521	24,821
Unsecured						
Connecticut Department of Developmental Services		6.00%	199	04/11/37	25,216	26,065
Unsecured						
Connecticut Department of Developmental Services		6.00%	214	09/01/32	22,085	23,282
Unsecured						
Connecticut Department of Developmental Services		6.00%	573	09/01/24	25,279	30,464
Unsecured						
Connecticut Department of Developmental Services		6.00%	143	09/01/37	18,400	18,996
Unsecured						
Connecticut Department of Developmental Services		6.00%	506	09/01/32	52,375	55,215
Unsecured						
Connecticut Department of Developmental Services		6.00%	174	09/01/27	12,140	13,456
Unsecured						
Connecticut Department of Developmental Services		6.00%	445	12/01/32	46,661	49,120
Unsecured						
Newtown Bank Loan		3.11%	12,841	03/11/23	416,976	-
Vehicles (17)						
Newtown Bank Loan		3.35%	843	03/11/25	44,902	-
Vehicles (2)						
Total loans payable					1,184,824	882,195
Less: current portion					(234,834)	(150,944)
Total loans payable, net of current portion					<u>\$ 949,990</u>	<u>\$ 731,251</u>

MARRAKECH, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Table 9.1 - Consolidated Schedule of Debt Obligations, Continued

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

2021	\$ 568,866
2022	433,067
2023	380,284
2024	265,970
2025	270,497
Thereafter	<u>3,290,295</u>
	<u>\$ 5,208,979</u>

Interest expense related to the above mortgages and loans for the years ended June 30, 2020 and 2019 were \$269,318 and \$291,982, respectively.

SUPPLEMENTARY INFORMATION

MARRAKECH, INC.

Consolidated Supporting Schedule of Operating Revenue

For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Department of Developmental Services	\$ 26,123,753	\$ 22,686,763
Department of Mental Health and Addiction Services	3,739,753	3,741,513
Department of Social Services Room and Board	3,863,697	3,791,688
ABI revenue	1,276,512	1,462,211
DCF Work/Learn and Children Services programs	463,006	531,950
Board of Education	429,593	504,446
Other revenue, net of gains and losses on disposals of assets	142,157	305,303
BRS revenue	32,812	92,875
Rental revenue	275,668	270,443
Caning revenue	206,335	212,869
HSTP revenue	155,131	117,900
BESB revenue	<u>6,263</u>	<u>12,786</u>
	<u>\$ 36,714,680</u>	<u>\$ 33,730,747</u>