

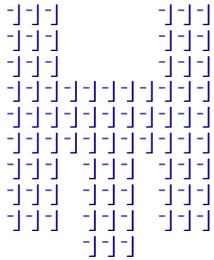
**SEAGULL SERVICES**  
a Florida registered d/b/a for  
**SEAGULL INDUSTRIES FOR THE DISABLED, INC.**

**REPORT ON AUDIT OF  
FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2018  
(with comparable totals for 2017)**

## TABLE OF CONTENTS

	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1-2
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5-6
Statement of Functional Expenses	7-8
<b>NOTES TO FINANCIAL STATEMENTS</b>	9-19
<b>REPORT ON INTERNAL CONTROL</b>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21



# Holyfield & Thomas, LLC

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Seagull Industries for the Disabled, Inc.  
Riviera Beach, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of Seagull Services, a Florida registered d/b/a for Seagull Industries for the Disabled, Inc. (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 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 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 judgment, 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 financial statements referred to above present fairly, in all material respects, the financial position of Seagull Services as of June 30, 2018, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019, on our consideration of Seagull Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Seagull Services' internal control over financial reporting and compliance.

## **Report on Summarized Comparative Information**

We have previously audited the 2017 financial statements, and our report dated February 28, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Holyfield & Thomas, LLC*

West Palm Beach, Florida  
February 7, 2019

**SEAGULL SERVICES**  
a Florida registered d/b/a for  
**SEAGULL INDUSTRIES FOR THE DISABLED, INC.**

**STATEMENT OF FINANCIAL POSITION**

*As of June 30, 2018*

*(with comparable totals for 2017)*

	Unrestricted	Temporarily Restricted	2018 Totals	2017 Totals
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 344,594	\$ 18,827	\$ 363,421	\$ 102,977
Grants, contracts, and allocations receivable, net	263,077	153,421	416,498	508,825
Prepaid expenses	77,904	-	77,904	192,062
Current portion of note receivable	6,850	-	6,850	-
Total current assets	692,425	172,248	864,673	803,864
Cash - designated	11,598	-	11,598	16,951
Other assets	16,582	-	16,582	16,309
Note receivable	8,334	-	8,334	-
Property and equipment, net	2,324,572	-	2,324,572	2,941,924
Total assets	<u>\$ 3,053,511</u>	<u>\$ 172,248</u>	<u>\$ 3,225,759</u>	<u>\$ 3,779,048</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Accounts payable	\$ 79,225	\$ -	\$ 79,225	\$ 228,413
Accrued expenses	144,452	-	144,452	247,258
Line of credit	-	-	-	241,624
Current portion of mortgages and note payable	53,174	-	53,174	24,281
Total current liabilities	276,851	-	276,851	741,576
Agency payable	11,598	-	11,598	16,951
Mortgages and note payable	1,136,345	-	1,136,345	978,126
Total liabilities	1,424,794	-	1,424,794	1,736,653
Net assets	1,628,717	172,248	1,800,965	2,042,395
Total liabilities and net assets	<u>\$ 3,053,511</u>	<u>\$ 172,248</u>	<u>\$ 3,225,759</u>	<u>\$ 3,779,048</u>

*See accompanying notes to financial statements.*

**SEAGULL SERVICES**  
a Florida registered d/b/a for  
**SEAGULL INDUSTRIES FOR THE DISABLED, INC.**

**STATEMENT OF ACTIVITIES**

*For the Year Ended June 30, 2018*

*(with comparable totals for 2017)*

	Unrestricted	Temporarily Restricted	2018 Totals	2017 Totals
Support and Revenues:				
Governmental grants and contracts	\$ 2,243,828	\$ -	\$ 2,243,828	\$ 2,207,457
United Way agency allocations	41,454	65,000	106,454	208,674
Contributions	527,892	119,500	647,392	537,267
	<u>2,813,174</u>	<u>184,500</u>	<u>2,997,674</u>	<u>2,953,398</u>
Total grants and contributions				
Special events	71,902	-	71,902	78,616
Program revenue	639,858	-	639,858	631,089
Merchandise sales	1,128	-	1,128	1,386
Miscellaneous income	25,376	-	25,376	39,451
(Loss) gain on disposal of assets	(21,355)	-	(21,355)	11,292
	<u>3,530,083</u>	<u>184,500</u>	<u>3,714,583</u>	<u>3,715,232</u>
Total support and revenue				
Net assets released from restrictions	379,030	(379,030)	-	-
Expenses:				
Program services	3,632,692	-	3,632,692	3,430,373
Support services:				
Management and general	261,749	-	261,749	296,041
Fundraising and development	61,572	-	61,572	42,325
	<u>3,956,013</u>	<u>-</u>	<u>3,956,013</u>	<u>3,768,739</u>
Total expenses				
Change in net assets	(46,900)	(194,530)	(241,430)	(53,507)
Net assets, beginning of year	1,675,617	366,778	2,042,395	2,095,902
Net assets, ending of year	<u>\$ 1,628,717</u>	<u>\$ 172,248</u>	<u>\$ 1,800,965</u>	<u>\$ 2,042,395</u>

See accompanying notes to financial statements.

**SEAGULL SERVICES**  
a Florida registered d/b/a for  
**SEAGULL INDUSTRIES FOR THE DISABLED, INC.**

**STATEMENT OF CASH FLOWS**

***For the Year Ended June 30, 2018***

***(with comparable totals for 2017)***

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from:		
Grants and contributions	\$ 3,074,817	\$ 2,969,327
Special events	71,902	78,616
Revenues and sales	640,986	642,651
Cash paid to employees and vendors	(3,815,652)	(3,498,461)
Miscellaneous income received	25,376	39,451
Interest expense paid	<u>(57,167)</u>	<u>(63,269)</u>
Net cash (used in) provided by operating activities	<u>(59,738)</u>	<u>168,315</u>
Cash flows from investing activities:		
Purchase of property and equipment	(264,191)	(163,391)
Proceeds from sale of property and equipment	<u>642,360</u>	<u>11,425</u>
Net cash provided by (used in) investing activities	<u>378,169</u>	<u>(151,966)</u>
Cash flows from financing activities:		
Net proceeds from (payments on) line of credit	(241,624)	35,000
Proceeds from mortgages and note payable	250,000	-
Payments of mortgages and note payable	<u>(66,363)</u>	<u>(25,123)</u>
Net cash (used in) provided by financing activities	<u>(57,987)</u>	<u>9,877</u>
Net change in cash	260,444	26,226
Cash and cash equivalents, beginning of year	<u>102,977</u>	<u>76,751</u>
Cash and cash equivalents, end of year	<u><u>\$ 363,421</u></u>	<u><u>\$ 102,977</u></u>

*See accompanying notes to financial statements.*

**SEAGULL SERVICES**  
a Florida registered d/b/a for  
**SEAGULL INDUSTRIES FOR THE DISABLED, INC.**

**STATEMENT OF CASH FLOWS**

***For the Year Ended June 30, 2018***

***(with comparable totals for 2017)***

	<u>2018</u>	<u>2017</u>
Reconciliation of change in net assets to net cash (used in) provided by operating activities:		
Change in net assets	\$ (241,430)	\$ (53,507)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	217,828	227,633
Amortization of debt issuance costs	3,475	3,563
Bad debt expense	5,083	16,450
Loss (gain) on disposal of assets	21,355	(11,292)
(Increase) decrease in certain assets:		
Grants, contracts, and allocations receivable	87,244	9,655
Note receivable	(15,184)	-
Prepaid expenses	114,158	(24,566)
Other assets	(273)	10,615
Increase (decrease) in certain liabilities:		
Accounts payable	(149,188)	(18,706)
Accrued expenses	(102,806)	8,470
Net cash (used in) provided by operating activities	<u>\$ (59,738)</u>	<u>\$ 168,315</u>

*See accompanying notes to financial statements.*

**SEAGULL SERVICES**  
a Florida registered d/b/a for  
**SEAGULL INDUSTRIES FOR THE DISABLED, INC.**

*For the Year Ended June 30, 2018*

	Program Services			
	Residential	Supported Employment	Adult Day Services	Education and Seagull Ranch
Salaries and wages	\$ 410,760	\$ 78,502	\$ 797,134	\$ 569,381
Payroll taxes and benefits	87,101	13,280	123,248	88,073
Total salaries and related expenses	497,861	91,782	920,382	657,454
Bad debt	-	-	5,083	-
Bank charges	2,142	353	3,234	2,208
Conference and training	2,230	60	1,355	374
Contract labor	2,719	453	3,965	2,832
Equipment rental	484	81	706	592
Equipment purchase	567	95	1,979	4,050
Food supplies	41,671	49	1,574	4,297
Interest	11,870	1,212	29,684	15,145
Insurance	35,716	4,066	133,234	41,260
Licenses and taxes	2,118	91	1,560	4,464
Marketing and outreach	8,627	3,072	12,727	9,172
Membership and dues	2,833	472	4,345	3,929
Miscellaneous	47	8	941	28,966
Office supplies	4,814	618	12,563	3,259
Postage and freight	161	5	134,755	196
Professional fees	58,958	4,249	57,720	112,236
Program activities	20	-	4,024	-
Repairs and maintenance	32,722	2,186	54,354	27,765
Rent	-	-	-	21,357
Materials and supplies	7,616	9,258	35,302	17,670
Taxes	819	-	4,171	-
Telephone	2,761	257	6,738	8,302
Vehicle and travel	3,371	2,739	65,763	27,229
Utilities	42,132	278	31,281	12,436
	762,259	121,384	1,527,440	1,005,193
Depreciation	50,863	5,781	135,945	23,827
Total expenses	\$ 813,122	\$ 127,165	\$ 1,663,385	\$ 1,029,020

*See accompanying notes to financial statements.*

## STATEMENT OF FUNCTIONAL EXPENSES

*(with comparable totals for 2017)*

Total Program Services	Support Services		Total Support Services	2018 Totals	2017 Totals
	Management and General	Fundraising and Development			
\$ 1,855,777	\$ 218,039	\$ 33,180	\$ 251,219	\$ 2,106,996	\$ 2,066,353
311,702	15,183	1,380	16,563	328,265	291,870
2,167,479	233,222	34,560	267,782	2,435,261	2,358,223
5,083	-	-	-	5,083	16,450
7,937	971	71	1,042	8,979	6,965
4,019	164	15	179	4,198	2,963
9,969	1,246	113	1,359	11,328	12,608
1,863	222	20	242	2,105	1,687
6,691	260	23	283	6,974	20,568
47,591	136	12	148	47,739	47,288
57,911	1,817	606	2,423	60,334	65,435
214,276	1,855	3,753	5,608	219,884	192,343
8,233	250	22	272	8,505	9,529
33,598	3,378	1,950	5,328	38,926	32,727
11,579	1,299	368	1,667	13,246	9,316
29,962	19	8	27	29,989	23,111
21,254	1,434	430	1,864	23,118	19,566
135,117	-	-	-	135,117	134,530
233,163	11,685	1,062	12,747	245,910	180,513
4,044	-	6,650	6,650	10,694	3,633
117,027	446	148	594	117,621	95,520
21,357	-	6,958	6,958	28,315	30,749
69,846	218	1,778	1,996	71,842	81,183
4,990	-	-	-	4,990	4,957
18,058	707	64	771	18,829	19,892
99,102	322	65	387	99,489	79,367
86,127	86	28	114	86,241	91,983
3,416,276	259,737	58,704	318,441	3,734,717	3,541,106
216,416	2,012	2,868	4,880	221,296	227,633
<u>\$ 3,632,692</u>	<u>\$ 261,749</u>	<u>\$ 61,572</u>	<u>\$ 323,321</u>	<u>\$ 3,956,013</u>	<u>\$ 3,768,739</u>

*See accompanying notes to financial statements.*

***For the Year Ended June 30, 2018***

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**1. Business and Summary of Significant Accounting Policies**

*Nature of Activities*

Seagull Industries for the Disabled, Inc. d/b/a Seagull Services (hereinafter "Seagull Services") is a Florida not-for-profit corporation established in 1979. Seagull Services helps adults and youth with disabilities find success and fulfillment in their lives. Seagull Services assists individuals with life challenges affecting their self-sufficiency to live with dignity and realize their full potential by providing education, training, employment, housing, residential services, community integration, and support services. Clients are encouraged to reach their full potential in terms of self-reliance and economic independence. Sources of revenue include state and local grants and fees for services as well as public and private contributions.

Program activities are conducted in Palm Beach and Martin Counties. Seagull Services operates an array of programs and services, and from time to time, the organization adds additional services to address unmet needs that may exist or arise in its service area. Some of the programs offered by Seagull Services include:

*Residential:* Seagull Services is licensed to operate an Assisted-Living Facility. The residential program is designed to improve the resident's level of independence and promote community involvement in a supportive environment, home style living and 24-hour supervision, and coordination of health and wellness appointments, nutritious meals, medication management and transportation. Promoting participation in social and community events is one of the program goals. The Seagull Place campus on Singer Island can house a maximum of twenty-four adults with disabilities. Assistance to people with disabilities also provides transitional support to more independent living or to maintaining independent living with families.

*Supported Employment:* Seagull Services prepares individuals with disabilities for community-based employment. It provides safe and supervised work experience, teaches appropriate social and work skills, promotes independence, and conducts individualized job search and placement with community employers. In addition, Seagull Services provides job coaching, as needed.

*Adult Day and Employment Services:* Seagull Services offers opportunities primarily focused on building skills that assist adults with disabilities continue to develop their work, social, and vocational abilities through paid work experience, educational opportunities, life-skill classes, and employment training. A unit of the Adult Day Services includes specialized programming to help senior adults with lifelong disabilities to age in place. Seagull Services also provides assistance to people with barriers to employment prepared to enter or to re-enter the workplace. These services include but are not limited to computerized employment search, resume writing, and pre-employment interviewing and on the job skills training. In addition, Seagull Services provides assistance with workplace etiquette, advocacy, and referrals to and application for other community resources.

*Education and Seagull Ranch:* Seagull Services sponsors a charter-school, known as Seagull Academy for Independent Living (Seagull Academy) that is affiliated with the School District of Palm Beach County. Seagull Academy is organized to educate students with developmental disabilities that include significant challenges to learning. Students' ages 11 to 22 are provided educational instruction in a small class environment with innovative methods designed to help students succeed academically and transition successfully to adult living. Academic lessons, internships community integration, daily life-skill building and extracurricular activities as well as job placement are offered.

*For the Year Ended June 30, 2018*

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1. **Business and Summary of Significant Accounting Policies, continued**

*Method of Accounting*

Seagull Services follows standards of accounting and financial reporting prescribed for not-for-profit organizations. It uses the accrual basis of accounting, which recognizes revenue when earned, public support when received and expenses as incurred. State and local government, and public grants are recorded as revenue when performance occurs under the terms of the grant agreement.

The costs of providing the various programs and other activities have been detailed in the Statement of Functional Expenses and summarized on a functional basis in the Statement of Activities. Salaries and other expenses that are associated with a specific program are charged directly to that program. Salaries and other expenses that benefit more than one program are allocated to the various programs based on the relative benefit provided.

*Financial Statement Presentation*

Seagull Services reports net assets and activity under FASB Accounting Standard Codification (ASC) 958-205, *Presentation of Financial Statements*. Under this standard, Seagull Services is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as further described below.

*Unrestricted:* Resources over which the governing board has discretionary control and for which Seagull Services was organized. The governing board of Seagull Services may elect to designate such resources for specific purposes. Those current resources for which the restriction has been satisfied are reflected as unrestricted.

*Temporarily Restricted:* Resources accumulated through donations that are subject to the restriction of the donor to be used for specific operating or capital purposes. Such resources become unrestricted when the requirements of the donor have been satisfied through expenditure for the specified purpose or program or through the passage of time.

*Permanently Restricted:* Resources accumulated through donations that are subject to the restriction of the donor to be maintained in perpetuity. Investment income may be either an unrestricted or a temporarily restricted resource when earned, determined according to the gift instruments. There were no permanently restricted net assets as of June 30, 2018.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

*For the Year Ended June 30, 2018*

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1. **Business and Summary of Significant Accounting Policies, continued**

*Fair Value of Financial Instruments*

Seagull Services follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which provides a common definition of fair value, establishes a framework to measure fair value within accounting principles generally accepted in the United States of America, and expands the disclosures about fair value measurements. The standard does not create any new fair value measurements. Instead, it applies under existing accounting pronouncements that require or permit fair value measurements.

For assets and liabilities measured at fair value on a recurring basis, entities should disclose information that allows financial statement users to assess (1) the inputs used to develop such measurements, such as Level 1 (i.e., quoted price in an active market for an identical asset or liability), Level 2 (i.e., quoted price for similar assets or liabilities in active markets), or Level 3 (i.e., unobservable inputs); and (2) the effect on changes in net assets of recurring measurements that use significant unobservable (Level 3) inputs. Seagull Services did not have financial instruments measured at fair value on a recurring basis.

The following methods and assumptions were used by the Seagull Services in estimating fair value of financial instruments that are not disclosed under ASC 820-10.

*Cash and Cash Equivalents:* The carrying amount reported approximates fair value.

*Grants, Contracts and Allocations Receivable:* The carrying amount approximates fair value due to the short term of these receivables.

*Accounts Payable, Accrued Expenses and Agency Payable:* The carrying amount reported approximates fair value due to the short term duration of the instruments.

*Notes Receivable, Mortgages and Note Payable:* The carrying amount reported approximates fair value as the stated interest rates approximate market rates.

*Cash and Cash Equivalents*

For purposes of the Statement of Cash Flows, Seagull Services considers time deposits, money market funds, and short-term investments with original maturities of three months or less to be cash and cash equivalents, other than cash - designated. See Agency Transactions and Designated Cash.

As required by the School District of Palm Beach County, Seagull Services maintains a separate checking account for Seagull Academy, its charter school program, wherein the School District could obtain control if there is a violation of the charter agreement.

*For the Year Ended June 30, 2018*

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1. **Business and Summary of Significant Accounting Policies, continued**

*Receivables*

*Grants receivable:* Represent amounts due from governmental agencies for services performed and/or performing pursuant to the grant provision. The allowance for grants receivable is based on management's assessment of the current status of the probability of collection. It is Seagull Service's policy to charge off uncollectible grants receivable when management determines the receivable will not be collected. As of June 30, 2018, Seagull Services deemed no allowance was considered necessary.

*Contracts receivable:* Represent amounts due from customers that have purchased services and workshop operations. The allowance for contracts receivable is based on management's assessment of the current status of individual accounts, history with the customer, and the probability of collection. It is Seagull Services' policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. As of June 30, 2018, Seagull Services recorded an allowance for uncollectible accounts in the amount of approximately \$4,861.

*Allocations receivable:* Represent amounts due from United Way agencies over the following year allocation period. These amounts are considered fully collectible and no allowance is deemed necessary.

*Prepaid Expenses*

Prepaid expenses consist principally of prepaid insurance and other costs advanced prior to the benefit received.

*Property and Equipment*

Property and equipment are recorded at cost, if purchased or at fair value, if donated, less accumulated depreciation, and are depreciated on the straight-line method over the estimated useful lives ranging from three to forty years. Donations of property and equipment are recorded as support at their estimated fair value. Costs of major renewals and improvements in excess of \$2,500 that significantly add to the productivity or that extend the economic useful life of the assets are capitalized. Amounts incurred as recurring expenditures for repairs and maintenance are expensed.

*Accrued Expenses*

Accrued expenses include accrued salaries and related costs, accrued insurance premiums, and accrued interest associated with the mortgage note due to Palm Beach County.

*Agency Transactions and Designated Cash*

In connection with its residential program, Seagull Services follows FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*, to account for agency transaction funds maintained on behalf of its clients. Seagull Services has no discretionary powers over these funds and is to make payments as directed for the benefit of the clients. In the acceptance of these funds, Seagull Services recognized designated cash and an agency payable in the Statement of Financial Position.

*For the Year Ended June 30, 2018*

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1. **Business and Summary of Significant Accounting Policies, continued**

*Support and Revenue Recognition*

Seagull Services follows the provisions of FASB ASC 958-605, *Revenue Recognition*. In accordance with this standard, Seagull Services reports gifts as unrestricted support unless they are received with donor stipulations that limit the use of the gift. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. However, if the restriction is met in the same period as the restricted income is received, Seagull Services classifies such income as unrestricted support.

Seagull Services reports various types of support and revenue as further described below:

*Contributions:* Contributions are recorded when received and unconditional promises to give are recorded when the promise is made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All contributions are considered available for unrestricted use unless specifically restricted by donor.

*Contributed Goods and Services:* A substantial number of unpaid volunteers have made significant contributions of their time to various related activities and programs. Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Seagull Services. Contributed volunteer services were not recognized as contributions in the financial statements as the criteria for recognition were not met. Contributed goods or services are recorded as contributions at their estimated fair value at date of receipt. There were no contributed goods or services received during the year ended June 30, 2018.

*Revenues:* The Organization receives various grants from federal, local, and private agencies for program and supporting services. Grants on a cost reimbursement basis, including recoverable overhead, from governmental grants and other sources are deemed earned and recognized in the Statement of Activities when expenditures are made for the purpose specified. Funds that have been received but have not yet been expended for the purpose specified are reported as temporarily restricted revenue. Grants which are not awarded on a cost reimbursement basis are recorded as support in the year for which the grant was awarded and in which the conditions of the grant are met.

*Special Events*

Seagull Services realized approximately \$71,900 of special events revenue. Direct expenses such as venue fees, supplies, advertising, and indirect expenses such as salaries, insurance, other expenses, associated with these events and general fundraising and development are reflected on a functional basis in the Statements of Activities and Functional Expenses.

*For the Year Ended June 30, 2018*

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**1. Business and Summary of Significant Accounting Policies, continued**

*Functional Expenses*

Expenses that can be identified with a specific program or supporting service are charged accordingly. Indirect expenses which benefit multiple programs and/or supporting services, are allocated according to various distribution bases such as relative salaries, relative square footage of space, and client enrollment percentages.

*Advertising Cost*

Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2018 were approximately \$1,500.

*Income Taxes*

The Internal Revenue Service (the "IRS") has determined that Seagull Services is an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to Seagull Services' tax-exempt purpose is subject to taxation as unrelated business income. For the year ended June 30, 2018, management does not believe Seagull Services has any liability with respect to unrelated business activities, and therefore no provision for income taxes has been made.

Seagull Services follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. This pronouncement seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. It prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return.

An entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. Seagull Services assesses its income tax positions based on management's evaluation of the facts, circumstances, and information available at the reporting date. Seagull Services uses the prescribed more likely than not threshold when making its assessment. Seagull Services has not accrued any interest expense or penalties related to tax positions. There are currently no open Federal or State tax years under audit.

*Recent Accounting Pronouncements*

The Financial Accounting Standards Board recently issued several Accounting Standards Updates (ASUs) that affect the accounting and reporting of not-for-profit entities.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, which does not take effect until Seagull Services' fiscal year ending June 30, 2021, and provides new guidance for leases, such that virtually all leases will be capitalized and create "right of use" assets along with associated liabilities. This standard will impact the interpretation of certain Seagull Services transactions, and management is evaluating the effect that the updated standard will have on the financial statements.

*For the Year Ended June 30, 2018*

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1. **Business and Summary of Significant Accounting Policies, continued**

*Recent Accounting Pronouncements, continued*

ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, imposes new requirements for the presentation and disclosure of not-for-profit financial statements, including a reduction in the number of net assets categories from 3 classes to 2 classes, a requirement to present a statement of functional expenses, a requirement to disclose the quantitative and qualitative aspects of its liquidity, in addition to other provisions. This ASU will be effective for Seagull Services' fiscal year ending June 30, 2019, with early implementation permitted. As with the new guidance on leasing, management is evaluating the effect that this updated standard will have on the financial statements.

*Comparable Financial Information*

These financial statements include certain prior-year summarized comparable information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Seagull Services' financial statements for the year ended June 30, 2017, from which the summarized information was derived. Certain 2017 amounts may have been reclassified to conform to 2018 classifications. Such reclassifications would have had no effect on the change in net assets as previously reported.

2. **Grants, Contracts, and Allocations Receivable**

Grants, contracts, and allocations receivable as of June 30, 2018, consisted of the following:

	<u>Amount</u>	<u>Allowance</u>	<u>Net</u>
Grants	\$ 299,257	\$ -	\$ 299,257
Contracts	57,102	4,861	52,241
Allocations	<u>65,000</u>	<u>-</u>	<u>65,000</u>
	<u>\$ 421,359</u>	<u>\$ 4,861</u>	<u>\$ 416,498</u>

3. **Prepaid Expenses**

Prepaid expenses as of June 30, 2018, consisted of the following:

Prepaid insurance	\$ 64,171
Other prepaid expenses	<u>13,733</u>
	<u>\$ 77,904</u>

**SEAGULL SERVICES**  
a Florida registered d/b/a for  
**SEAGULL INDUSTRIES FOR THE DISABLED, INC.**

**NOTES TO FINANCIAL STATEMENTS**

*For the Year Ended June 30, 2018*

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**4. Other Assets**

Other assets as of June 30, 2018 consisted of the following:

Refundable deposits	\$ 2,819
Unemployment reserve	<u>13,763</u>
	<u>\$ 16,582</u>

**5. Note Receivable**

During the current year, Seagull Services received a promissory note receivable as a result of the sale of equipment. The note has a stated interest rate of 5% and is due in October 2020. The note consisted of the following amounts as of June 30, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Receivables in less than one year	<u>\$ 6,850</u>	<u>\$ 703</u>	<u>\$ 7,553</u>
Receivables in one to five years:			
June 30, 2020	6,198	276	6,474
June 30, 2021	<u>2,136</u>	<u>22</u>	<u>2,158</u>
Total receivables in one to five years	<u>8,334</u>	<u>298</u>	<u>8,632</u>
Total note receivables	<u>\$ 15,184</u>	<u>\$ 1,001</u>	<u>\$ 16,185</u>

**6. Property and Equipment**

Property and equipment as of June 30, 2018, consisted of the following:

Land	\$ 350,000
Buildings and improvements	3,319,491
Equipment	720,638
Vehicles	<u>748,156</u>
	5,138,285
Less accumulated depreciation	<u>2,813,713</u>
	<u>\$ 2,324,572</u>

**7. Accrued Expenses**

Accrued expenses as of June 30, 2018, consisted of the following:

Accrued insurance	\$ 32,544
Accrued salaries	42,025
Accrued unemployment tax	29,992
Accrued interest - Palm Beach County	38,358
Other accrued expenses	<u>1,563</u>
	<u>\$ 144,452</u>

*For the Year Ended June 30, 2018*

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**8. Revolving Line of Credit**

In September, 2017, Seagull Services modified an existing line of credit to reduce the available amount from \$250,000 to \$150,000. Substantially all other terms and conditions remain, including a provision of due on demand and interest only payments due monthly at the banks' Prime rate plus applicable margin rate of 2% (7% at June 30, 2018). The line of credit had a balance of \$0 at year-end. Pursuant to the line of credit agreement, Seagull Services is required to provide audited financial statements within 180 days of its fiscal year-end. Seagull Services received a waiver extending the due date to March 1, 2019.

**9. Mortgages and Note Payable**

Mortgage note payable to a bank, with monthly principal and interest payments of \$5,416, bearing interest at 4.75%, with all unpaid principal and accrued interest due on September 3, 2025. This mortgage note is secured by land, building, and equipment. Closing costs related to this mortgage amounted to \$23,753 and are being amortized over 10 years. Current amortization expense was \$2,375 and is reported as part of interest expense in the Statement of Functional Expenses.

\$ 893,053

Note payable to a bank, with monthly principal and interest payments of \$3,652, bearing interest at 6.00%, with all unpaid principal and accrued interest due on September 19, 2024. This mortgage note is secured by land, building, and equipment. Closing costs related to this mortgage amounted to \$10,262 and are being amortized over 7 years. Current amortization expense was \$1,100 and is reported as part of interest expense in the Statement of Functional Expenses.

217,131

Pursuant to the agreement for the two preceding notes payable, Seagull Services is required to provide audited financial statements within 180 days of its fiscal year-end. Seagull Services received a waiver extending the due date to March 1, 2019

Mortgage note payable to Palm Beach County, with annual principal and interest payments of \$5,872, bearing interest at 3.00%. The note matures April 1, 2032, and is secured by the Singer Island property.

105,520

Total mortgages and note payable  
Less unamortized debt issuance cost

1,215,704  
26,185

Net mortgages and note payable  
Less current portion

1,189,519  
53,174

Total non-current portion

\$ 1,136,345

*For the Year Ended June 30, 2018*

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**9. Mortgages and Note Payable, continued**

Annual principal payments on mortgages and note payable for future fiscal years are as follows:

<u>June 30,</u>	<u>Principal Payments</u>	<u>Debt Issuance Costs</u>	<u>Net</u>
2019	\$ 57,015	\$ (3,841)	\$ 53,174
2020	60,136	(3,841)	56,295
2021	63,432	(3,841)	59,591
2022	66,914	(3,841)	63,073
2023	70,591	(3,841)	66,750
Thereafter	<u>897,616</u>	<u>(6,980)</u>	<u>890,636</u>
	<u>\$ 1,215,704</u>	<u>\$ (26,185)</u>	<u>\$ 1,189,519</u>

**10. Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, 2018, are identified for the following purposes:

Capital Projects	\$ 88,421
Client and student services	65,000
Season to Share	<u>18,827</u>
	<u>\$ 172,248</u>

**11. Pension Plan**

Seagull Services provides a defined contribution pension plan for its employees under Section 403(b) of the Internal Revenue Code. Employees are eligible upon reaching 21 years of age and one year of qualifying service. Contributions are set annually at the discretion of the Board of Directors for eligible employee's compensation. Seagull Services did not contribute to the plan during the year ended June 30, 2018.

**12. Concentration and Contingency**

In the ordinary course of operations, Seagull Services may maintain cash reserves in excess of federally insured limits. Management minimizes its risk by depositing cash in financial institutions which are believed to be in sound financial condition. As of June 30, 2018, Seagull Services had approximately \$56,000 in excess of FDIC insured limits. Seagull Services has not experienced any losses of such funds and management believes the organization is not exposed to significant risk on cash.

*For the Year Ended June 30, 2018*

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**12. Concentration and Contingency, continued**

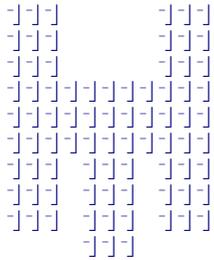
Seagull Services receives significant funding from the Agency for Persons with Disabilities, Palm Beach County School Board, and other public sources. Consequently, it is dependent upon the availability of governmental grants and contracts to continue its programs in the present form. Currently, the gross revenue derived from these governmental agencies account for approximately 60% of total revenues. As of June 30, 2018, Seagull Services' grants and contracts receivable from such agencies amounted to approximately \$153,000.

Seagull Services also receives a substantial amount of revenue from various government agencies under grant and contract agreements. These agreements require the fulfillment of certain conditions as set forth in the grant and contract documents. Failure to fulfill or failure to continue to fulfill these conditions, could result in a reduction or potential refund of the funds allocable to Seagull Services from these agencies. A material reduction in the level of this revenue may have a significant effect on Seagull Services' programs and activities. Although a significant reduction or refund is a possibility, management believes the contingency to be remote, since by accepting the contracts and the contract terms, Seagull Services has accommodated the provisions of the agreements.

**13. Subsequent Events**

Management has evaluated subsequent events through February 7, 2019, the date on which the financial statements were available to be issued, and determined the following to disclose in these financial statements.

Subsequent to year end, Seagull Services discontinued its residential services program and sold the related properties for approximately \$1.3Million.



# Holyfield & Thomas, LLC

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Seagull Industries for the Disabled, Inc.  
West Palm Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Seagull Services, a Florida registered d/b/a for Seagull Industries for the Disabled, Inc. (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2019.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Holyfield & Thomas, LLC*

West Palm Beach, Florida

February 7, 2019