

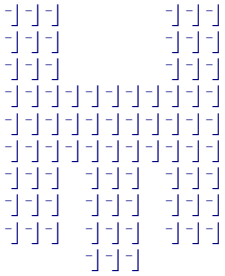
SEAGULL SERVICES
a Florida registered d/b/a for
SEAGULL INDUSTRIES FOR THE DISABLED, INC.

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017
(with comparable totals for 2016)**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Seagull Industries for the Disabled, Inc.
West Palm 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, 2017, 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, 2017, 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 28, 2018, 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 2016 financial statements, and our report dated February 28, 2017, 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, 2016, 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 28, 2018

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

STATEMENT OF FINANCIAL POSITION

As of June 30, 2017

(with comparable totals for 2016)

	Unrestricted	Temporarily Restricted	2017 Totals	2016 Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 15,099	\$ 87,878	\$ 102,977	\$ 76,751
Grants, contracts, and allocations receivable, net	229,925	278,900	508,825	534,930
Prepaid expenses	192,062	-	192,062	167,496
Total current assets	437,086	366,778	803,864	779,177
Cash - designated	16,951	-	16,951	19,630
Other assets	16,309	-	16,309	26,924
Property and equipment, net	2,941,924	-	2,941,924	3,006,299
Total assets	<u>\$ 3,412,270</u>	<u>\$ 366,778</u>	<u>\$ 3,779,048</u>	<u>\$ 3,832,030</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 228,413	\$ -	\$ 228,413	\$ 247,119
Accrued expenses	247,258	-	247,258	238,788
Line of credit	241,624	-	241,624	206,624
Current portion of mortgages and note payable	24,281	-	24,281	23,159
Total current liabilities	741,576	-	741,576	715,690
Agency payable	16,951	-	16,951	19,630
Mortgages and note payable	978,126	-	978,126	1,000,808
Total liabilities	1,736,653	-	1,736,653	1,736,128
Net assets	1,675,617	366,778	2,042,395	2,095,902
Total liabilities and net assets	<u>\$ 3,412,270</u>	<u>\$ 366,778</u>	<u>\$ 3,779,048</u>	<u>\$ 3,832,030</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, 2017

(with comparable totals for 2016)

	Unrestricted	Temporarily Restricted	2017 Totals	2016 Totals
Support and Revenues:				
Governmental grants and contracts	\$ 2,207,457	\$ -	\$ 2,207,457	\$ 2,141,484
United Way agency allocations	38,674	170,000	208,674	209,691
Contributions	299,749	227,342	527,091	502,050
In-kind contributions	-	-	-	2,520
	<u>2,545,880</u>	<u>397,342</u>	<u>2,943,222</u>	<u>2,855,745</u>
Total grants and contributions				
Special events	78,616	-	78,616	70,954
Program revenue	631,089	-	631,089	722,974
Merchandise sales	11,562	-	11,562	26,541
Miscellaneous income	39,451	-	39,451	27,319
Gain on disposal of assets	11,292	-	11,292	3,838
	<u>3,317,890</u>	<u>397,342</u>	<u>3,715,232</u>	<u>3,707,371</u>
Total support and revenue				
Net assets released from restrictions	<u>259,049</u>	<u>(259,049)</u>	<u>-</u>	<u>-</u>
Expenses:				
Program services	3,430,373	-	3,430,373	3,646,586
Support services:				
Management and general	296,041	-	296,041	236,052
Fundraising and development	42,325	-	42,325	69,022
	<u>3,768,739</u>	<u>-</u>	<u>3,768,739</u>	<u>3,951,660</u>
Total expenses				
Change in net assets	(191,800)	138,293	(53,507)	(244,289)
Net assets, beginning of year	<u>1,867,417</u>	<u>228,485</u>	<u>2,095,902</u>	<u>2,340,191</u>
Net assets, ending of year	<u>\$ 1,675,617</u>	<u>\$ 366,778</u>	<u>\$ 2,042,395</u>	<u>\$ 2,095,902</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, 2017

(with comparable totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from:		
Grants and contributions	\$ 2,969,327	\$ 2,998,864
Special events	78,616	70,954
Revenues and sales	642,651	749,515
Cash paid to employees and vendors	(3,498,461)	(3,714,467)
Miscellaneous income received	39,451	27,319
Interest expense paid	<u>(63,269)</u>	<u>(54,261)</u>
Net cash provided by operating activities	<u>168,315</u>	<u>77,924</u>
Cash flows from investing activities:		
Purchase of property and equipment	(163,391)	(402,271)
Proceeds from sale of property and equipment	<u>11,425</u>	<u>10,700</u>
Net cash used in investing activities	<u>(151,966)</u>	<u>(391,571)</u>
Cash flows from financing activities:		
Net proceeds from (payments of) line of credit	35,000	(18,837)
Proceeds from mortgages and note payable	-	950,000
Payments of mortgages and note payable	<u>(25,123)</u>	<u>(732,359)</u>
Net cash provided by financing activities	<u>9,877</u>	<u>198,804</u>
Net change in cash	26,226	(114,843)
Cash and cash equivalents, beginning of year	<u>76,751</u>	<u>191,594</u>
Cash and cash equivalents, end of year	<u><u>\$ 102,977</u></u>	<u><u>\$ 76,751</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, 2017

(with comparable totals for 2016)

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (53,507)	\$ (244,289)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	227,633	208,663
Amortization of debt issuance costs	3,563	1,246
Bad debt expense	16,450	22,107
Gain on disposal of assets	(11,292)	(3,838)
Donated assets	-	(770)
(Increase) decrease in certain assets:		
Grants, contracts, and allocations receivable	9,655	123,532
Prepaid expenses	(24,566)	4,524
Other assets	10,615	(24,144)
Increase (decrease) in certain liabilities:		
Accounts payable	(18,706)	72,714
Accrued expenses	8,470	(81,821)
Net cash provided by operating activities	<u>\$ 168,315</u>	<u>\$ 77,924</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, 2017

	Program Services			
	Residential	Supported Employment	Adult Day Services	Education and Seagull Ranch
Salaries and wages	\$ 413,892	\$ 66,995	\$ 777,228	\$ 564,260
Payroll taxes and benefits	63,531	8,853	107,976	79,423
Total salaries and related expenses	477,423	75,848	885,204	643,683
Bad debt	-	-	16,450	-
Bank charges	1,379	172	3,151	1,265
Conference and training	1,654	19	1,066	141
Contract labor	777	90	8,739	807
Equipment rental	392	49	621	413
Equipment purchase	1,079	40	5,790	12,426
Food supplies	42,620	30	1,453	3,056
Interest	9,168	-	30,790	22,877
Insurance	26,032	2,020	102,705	56,425
Licenses and taxes	528	60	1,028	7,654
Marketing and outreach	7,103	882	11,192	8,465
Membership and dues	1,907	238	3,020	3,118
Miscellaneous	236	27	1,343	21,332
Office supplies	4,206	389	11,088	1,852
Penalties and late fees	-	-	-	-
Postage and freight	518	36	133,041	407
Professional fees	41,077	2,369	42,138	84,663
Program activities	-	-	2,961	-
Repairs and maintenance	34,527	-	28,743	32,055
Rent	1,612	-	-	21,357
Materials and supplies	6,642	1,950	29,879	36,149
Taxes	849	2	4,084	14
Telephone	1,447	92	7,428	8,315
Vehicle and travel	3,438	2,871	41,102	31,484
Utilities	40,635	-	26,859	24,317
	705,249	87,184	1,399,875	1,022,275
Depreciation	45,608	6,202	120,584	43,396
Total expenses	<u>\$ 750,857</u>	<u>\$ 93,386</u>	<u>\$ 1,520,459</u>	<u>\$ 1,065,671</u>

See accompanying notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

(with comparable totals for 2016)

Total Program Services	Support Services			2017 Totals	2016 Totals
	Management and General	Fundraising and Development	Total Support Services		
\$ 1,822,375	\$ 229,709	\$ 14,269	\$ 243,978	\$ 2,066,353	\$ 2,101,273
259,783	30,718	1,369	32,087	291,870	245,613
2,082,158	260,427	15,638	276,065	2,358,223	2,346,886
16,450	-	-	-	16,450	22,107
5,967	690	308	998	6,965	11,088
2,880	77	6	83	2,963	3,430
10,413	2,165	30	2,195	12,608	14,641
1,475	196	16	212	1,687	2,204
19,335	160	1,073	1,233	20,568	18,387
47,159	119	10	129	47,288	49,964
62,835	1,941	659	2,600	65,435	58,734
187,182	2,176	2,985	5,161	192,343	221,321
9,270	239	20	259	9,529	10,959
27,642	3,526	1,559	5,085	32,727	73,060
8,283	954	79	1,033	9,316	12,306
22,938	109	64	173	23,111	33,090
17,535	1,018	1,013	2,031	19,566	18,645
-	-	-	-	-	-
134,002	143	385	528	134,530	166,216
170,247	9,476	790	10,266	180,513	205,754
2,961	-	672	672	3,633	21,733
95,325	146	49	195	95,520	110,745
22,969	-	7,780	7,780	30,749	37,603
74,620	396	6,167	6,563	81,183	86,917
4,949	8	-	8	4,957	5,800
17,282	2,579	31	2,610	19,892	22,858
78,895	214	258	472	79,367	93,054
91,811	122	50	172	91,983	95,494
3,214,583	286,881	39,642	326,523	3,541,106	3,742,997
215,790	9,160	2,683	11,843	227,633	208,663
<u>\$ 3,430,373</u>	<u>\$ 296,041</u>	<u>\$ 42,325</u>	<u>\$ 338,366</u>	<u>\$ 3,768,739</u>	<u>\$ 3,951,660</u>

See accompanying notes to financial statements.

For the Year Ended June 30, 2017

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, 2017

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

Nature of Activities, continued

Education and Seagull Ranch, continued: Seagull Services had implemented an agricultural training program that supplied top quality organic produce to some of the finest restaurants in South Florida as well as supplied area school kitchens and Seagull Services' clients with nutritious food. Seagull Services had commercial greenhouses covering three-quarters of an acre. Students spent time each week studying horticulture, hands-on work, other agricultural activities, and learning about nutrition and the food chain. This facility had been an internship site for students interested in a career in agriculture. Subsequent to the end of the fiscal year, Seagull Services sold the ranch and its related assets.

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, 2017.

For the Year Ended June 30, 2017

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

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.

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 the receivables.

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

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.

For the Year Ended June 30, 2017

1. Business and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents, continued

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.

Receivables

Grants receivable: Represent amounts due from governmental agencies for services performed and/or performing pursuant to the grant provision. As of June 30, 2017, Seagull Services recorded an allowance for uncollectible accounts in the amount of approximately \$3,150. The allowance 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.

Contracts receivable: Represent amounts due from customers that have purchased services and workshop operations. As of June 30, Seagull Services recorded an allowance for uncollectible accounts in the amount of approximately \$13,300. The allowance 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.

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.

For the Year Ended June 30, 2017

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

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.

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, 2017.

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.

For the Year Ended June 30, 2017

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

Special Events

Seagull Services realized approximately \$78,600 of special events revenue, less approximately \$12,700 of direct expenses such as venue fees, supplies, and advertising. Indirect expenses such as salaries, insurance, and 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.

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, 2017 were approximately \$2,000.

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, 2017, 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.

For the Year Ended June 30, 2017

1. Business and Summary of Significant Accounting Policies, continued

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.

ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30 – Simplifying the Presentation of Debt Issuance Costs)*, In April 2015, the FASB issued an accounting standards update that required debt issuance costs be presented in the Statement of Financial Position as a direct deduction from the carrying value of the debt. The recognition and measurement guidance for debt issuance costs is not affected. The update, which is effective on a retrospective basis, was implemented during the year ended June 30, 2017.

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.

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, 2016, from which the summarized information was derived. Certain 2016 amounts may have been reclassified to conform to 2017 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, 2017, consisted of the following:

	<u>Amount</u>	<u>Allowance</u>	<u>Net</u>
Grants	\$ 302,894	\$ 3,151	\$ 299,743
Contracts	52,401	13,319	39,082
Allocations	<u>170,000</u>	<u>-</u>	<u>170,000</u>
	<u>\$ 525,295</u>	<u>\$ 16,470</u>	<u>\$ 508,825</u>

For the Year Ended June 30, 2017

3. Prepaid Expenses

Prepaid expenses as of June 30, 2017, consisted of the following:

Prepaid insurance	\$ 174,739
Other prepaid expenses	<u>17,323</u>
	<u>\$ 192,062</u>

4. Other Assets

Other assets as of June 30, 2017 consisted of the following:

Refundable deposits	\$ 3,287
Unemployment reserve	<u>13,022</u>
	<u>\$ 16,309</u>

5. Property and Equipment

Property and equipment as of June 30, 2017, consisted of the following:

Land	\$ 415,182
Buildings and improvements	4,091,869
Equipment	797,735
Vehicles	<u>663,324</u>
	5,968,110
Less accumulated depreciation	<u>3,026,186</u>
	<u>\$ 2,941,924</u>

6. Accrued Expenses

Accrued expenses as of June 30, 2017, consisted of the following:

Accrued insurance	\$ 133,628
Accrued salaries	42,685
Accrued unemployment tax	29,513
Accrued interest - Palm Beach County	35,192
Other accrued expenses	<u>6,240</u>
	<u>\$ 247,258</u>

7. Revolving Line of Credit

On April 1, 2015, Seagull Services renewed its \$250,000 line of credit, which is due on demand. The line of credit had a balance of approximately \$241,600 at year-end. Payments of interest only are due monthly at an interest rate of Prime plus 1% (5.25% at June 30, 2017).

For the Year Ended June 30, 2017

8. 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 \$3,563 and is reported as part of interest expense in the Statement of Functional Expenses.	\$ 914,581
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
Note payable for the purchase of equipment, with monthly principal and interest payments of \$248, bearing interest of 2.99%, with all principal and accrued interest due on January 1, 2018.	<u>1,704</u>
Total mortgages and note payable	1,021,805
Less unamortized debt issuance cost	<u>19,398</u>
Net mortgages and note payable	1,002,407
Less current portion	<u>24,281</u>
Total non-current portion	<u>\$ 978,126</u>

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>
2018	\$ 26,656	\$ (2,375)	\$ 24,281
2019	26,109	(2,375)	23,734
2020	27,321	(2,375)	24,946
2021	28,591	(2,375)	26,216
2022	29,921	(2,375)	27,546
Thereafter	<u>883,207</u>	<u>(7,523)</u>	<u>875,684</u>
	<u>\$ 1,021,805</u>	<u>\$ (19,398)</u>	<u>\$ 1,002,407</u>

9. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017, are identified for the following purposes:

Capital Projects	\$ 150,954
Client and student services	170,000
Season to Share	35,824
Summer camp	<u>10,000</u>
	<u>\$ 366,778</u>

For the Year Ended June 30, 2017

10. 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, 2017.

11. Concentration and Contingency

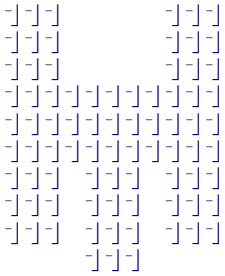
In the ordinary course of operations, Seagull Services may maintain cash reserves in excess of federally insured limits. Management minimizes its risk by depositing cash in financial institutions which are believed to be in sound financial condition. Seagull Services has not experienced any losses of such funds and management believes the organization is not exposed to significant risk on cash. There were no balances deposited as of June 30, 2017 that exceeded the FDIC limit of \$250,000.

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 59% of total revenues. As of June 30, 2017, Seagull Services' grants and contracts receivable from such agencies amounted to approximately \$254,000.

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.

12. Subsequent Events

Management has evaluated subsequent events through February 28, 2018, the date on which the financial statements were available to be issued, and determined there were no events to disclose in these financial statements



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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, 2017, 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 28, 2018.

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 28, 2018