

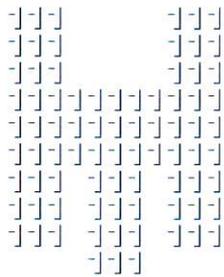
SEAGULL SERVICES
a Florida registered d/b/a for
SEAGULL INDUSTRIES FOR THE DISABLED, INC.

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2019
(with comparable totals for 2018)**

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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, 2019, 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2020, 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 2018 financial statements, and our report dated February 7, 2019, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Holyfield & Thomas, LLC

West Palm Beach, Florida
October 27, 2020

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

STATEMENT OF FINANCIAL POSITION

As of June 30, 2019

(with comparable totals for 2018)

	Without Donor Restriction	With Donor Restriction	2019 Totals	2018 Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 61,259	\$ 86,603	\$ 147,862	\$ 363,421
Investments	1,125,429	-	1,125,429	-
Grants, contracts, and allocations receivable, net	169,933	40,000	209,933	416,498
Prepaid expenses	68,621	-	68,621	77,904
Current portion of note receivable	6,701	-	6,701	6,850
Total current assets	1,431,943	126,603	1,558,546	864,673
Cash - designated	55,199	-	55,199	11,598
Other assets	14,619	-	14,619	16,582
Note receivable	2,135	-	2,135	8,334
Property and equipment, net	1,903,566	-	1,903,566	2,324,572
Total assets	\$ 3,407,462	\$ 126,603	\$ 3,534,065	\$ 3,225,759
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 79,490	\$ -	\$ 79,490	\$ 79,225
Accrued expenses	86,975	-	86,975	144,452
Line of credit	-	-	-	-
Current portion of mortgages and note payable	53,319	-	53,319	53,174
Total current liabilities	219,784	-	219,784	276,851
Agency payable	55,199	-	55,199	11,598
Mortgages and note payable	991,066	-	991,066	1,136,345
Total liabilities	1,266,049	-	1,266,049	1,424,794
Net assets	2,141,413	126,603	2,268,016	1,800,965
Total liabilities and net assets	\$ 3,407,462	\$ 126,603	\$ 3,534,065	\$ 3,225,759

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, 2019

(with comparable totals for 2018)

	Without Donor Restriction	With Donor Restriction	2019 Totals	2018 Totals
Support and Revenues:				
Governmental grants and contracts	\$ 1,926,569	\$ -	\$ 1,926,569	\$ 2,243,828
United Way agency allocations	39,122	40,000	79,122	106,454
Contributions	171,541	159,200	330,741	647,392
 Total grants and contributions	 2,137,232	 199,200	 2,336,432	 2,997,674
 Special events	 51,673	 -	 51,673	 71,902
Program revenue	416,075	-	416,075	639,858
Merchandise sales	787	-	787	1,128
Miscellaneous income	16,405	-	16,405	24,257
Interest and dividend income	19,597	-	19,597	1,119
Realized and unrealized gain/loss	2,042	-	2,042	-
Gain (loss) on disposal of assets	1,083,648	-	1,083,648	(21,355)
 Total support and revenue	 3,727,459	 199,200	 3,926,659	 3,714,583
 Net assets released from restrictions	 244,845	 (244,845)	 -	 -
Expenses:				
Program services	3,181,746	-	3,181,746	3,632,692
Support services:				
Management and general	208,395	-	208,395	261,749
Fundraising and development	69,467	-	69,467	61,572
 Total expenses	 3,459,608	 -	 3,459,608	 3,956,013
 Change in net assets	 512,696	 (45,645)	 467,051	 (241,430)
 Net assets, beginning of year	 1,628,717	 172,248	 1,800,965	 2,042,395
 Net assets, ending of year	 <u>\$ 2,141,413</u>	 <u>\$ 126,603</u>	 <u>\$ 2,268,016</u>	 <u>\$ 1,800,965</u>

See accompanying notes to financial statements.

SEAGULL SERVICES
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SEAGULL INDUSTRIES FOR THE DISABLED, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2019

(with comparable totals for 2018)

	2019	2018
Cash flows from operating activities:		
Cash received from:		
Grants and contributions	\$ 2,549,345	\$ 3,074,817
Special events	51,673	71,902
Revenues and sales	416,862	640,986
Cash paid to employees and vendors	(3,193,802)	(3,815,652)
Miscellaneous income received	16,405	24,257
Interest and dividends received	19,597	1,119
Interest expense paid	(101,773)	(57,167)
Net cash (used in) operating activities	<u>(241,693)</u>	<u>(59,738)</u>
Cash flows from investing activities:		
Purchase of investments	(1,123,387)	-
Purchase of property and equipment	(155,985)	(264,191)
Proceeds from sale of property and equipment	1,454,481	642,360
Net cash provided by investing activities	<u>175,109</u>	<u>378,169</u>
Cash flows from financing activities:		
Change in agency payable	43,601	11,598
Net proceeds from (payments on) line of credit	-	(241,624)
Proceeds from mortgages and note payable	-	250,000
Payments of mortgages and note payable	(148,975)	(66,363)
Net cash (used in) financing activities	<u>(105,374)</u>	<u>(46,389)</u>
Net change in cash	(171,958)	272,042
Cash and cash equivalents, beginning of year	<u>375,019</u>	<u>102,977</u>
Cash and cash equivalents, end of year	203,061	375,019
Cash - designated (non-current)	<u>55,199</u>	<u>11,598</u>
Cash and cash equivalents (current)	<u>\$ 147,862</u>	<u>\$ 363,421</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, 2019

(with comparable totals for 2018)

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash (used in) operating activities:		
Change in net assets	\$ 467,051	\$ (241,430)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	206,158	217,828
Realized and change in unrealized gain	(2,042)	-
Amortization of debt issuance costs	3,841	3,475
Bad debt expense	7,377	5,083
(Gain) loss on disposal of assets	(1,083,648)	21,355
(Increase) decrease in certain assets:		
Grants, contracts, and allocations receivable	199,188	87,244
Note receivable	6,348	(15,184)
Prepaid expenses	9,283	114,158
Other assets	1,963	(273)
Increase (decrease) in certain liabilities:		
Accounts payable	265	(149,188)
Accrued expenses	(57,477)	(102,806)
Net cash (used in) operating activities	<u>\$ (241,693)</u>	<u>\$ (59,738)</u>

See accompanying notes to financial statements.

SEAGULL SERVICES
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SEAGULL INDUSTRIES FOR THE DISABLED, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	Program Services			
	Residential	Supported Employment	Adult Day Services	Education
Salaries and wages	\$ 83,855	\$ 67,084	\$ 1,016,431	\$ 503,130
Payroll taxes and benefits	10,464	8,371	122,655	62,782
Total salaries and related expenses	94,319	75,455	1,139,086	565,912
Bad debt	682	-	1,420	4,090
Bank charges	321	-	4,172	1,926
Conference and training	94	-	1,146	638
Contract labor	2,511	-	17,025	8,372
Equipment rental	212	1,670	1,090	1,274
Equipment purchase	265	212	3,230	1,589
Food supplies	1,052	842	12,837	6,314
Interest	5,569	-	37,744	18,563
Insurance	16,374	2,299	118,024	62,241
Licenses and taxes	457	365	5,574	2,741
Marketing and outreach	1,798	1,438	21,931	10,786
Membership and dues	512	410	6,247	3,073
Miscellaneous	2,653	2,123	36,742	15,919
Office supplies	824	659	10,054	4,944
Penalties and late fees	-	-	-	-
Postage and freight	4,885	-	63,501	29,309
Professional fees	19,087	-	129,453	63,622
Program activities	353	-	4,583	2,115
Repairs and maintenance	6,413	-	43,468	21,377
Rent	1,456	1,165	17,765	8,737
Materials and supplies	2,104	1,683	25,673	12,626
Taxes	212	170	2,585	1,271
Telephone	946	757	11,542	5,676
Vehicle and travel	5,716	4,572	69,730	34,293
Utilities	2,833	2,267	34,564	16,999
	171,648	96,087	1,819,186	904,407
Depreciation	9,050	7,240	119,825	54,303
Total expenses	\$ 180,698	\$ 103,327	\$ 1,939,011	\$ 958,710

See accompanying notes to financial statements.

SEAGULL SERVICES
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SEAGULL INDUSTRIES FOR THE DISABLED, INC.

STATEMENT OF FUNCTIONAL EXPENSES

(with comparable totals for 2018)

Total Program Services	Support Services		Total Support Services	2019 Totals	2018 Totals
	Management and General	Fundraising and Development			
\$ 1,670,500	\$ 109,376	\$ 36,459	\$ 145,835	\$ 1,816,335	\$ 2,109,574
204,272	13,649	4,549	18,198	222,470	325,723
1,874,772	123,025	41,008	164,033	2,038,805	2,435,297
6,192	889	296	1,185	7,377	5,083
6,419	418	140	558	6,977	8,980
1,878	122	41	163	2,041	4,197
27,908	1,820	607	2,427	30,335	11,328
4,246	277	92	369	4,615	2,106
5,296	345	115	460	5,756	6,974
21,045	1,372	458	1,830	22,875	47,740
61,876	4,035	1,345	5,380	67,256	63,808
198,938	13,531	4,510	18,041	216,979	220,154
9,137	596	199	795	9,932	8,505
35,953	2,344	782	3,126	39,079	38,894
10,242	668	223	891	11,133	13,246
57,437	3,460	1,154	4,614	62,051	29,708
16,481	1,075	358	1,433	17,914	23,118
-	-	-	-	-	-
97,695	6,371	2,124	8,495	106,190	135,114
212,162	13,831	4,610	18,441	230,603	245,911
7,051	460	153	613	7,664	10,694
71,258	4,647	1,549	6,196	77,454	117,622
29,123	1,899	633	2,532	31,655	28,315
42,086	2,745	915	3,660	45,746	71,842
4,238	276	92	368	4,606	4,990
18,921	1,234	411	1,645	20,566	18,829
114,311	7,455	2,485	9,940	124,251	99,489
56,663	3,695	1,232	4,927	61,590	86,241
2,991,328	196,590	65,532	262,122	3,253,450	3,738,185
190,418	11,805	3,935	15,740	206,158	217,828
<u>\$ 3,181,746</u>	<u>\$ 208,395</u>	<u>\$ 69,467</u>	<u>\$ 277,862</u>	<u>\$ 3,459,608</u>	<u>\$ 3,956,013</u>

See accompanying notes to financial statements.

For the Year Ended June 30, 2019

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 was licensed to operate an Assisted-Living Facility. The residential program was 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 housed 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. In September 2018, Seagull Services discontinued the residential program and sold the residential campus.

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: 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, 2019

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 two classes of net assets described as follows:

Net Assets Without Donor Restrictions: includes those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Changes in net assets arising from exchange transaction (except income and gains on assets that are restricted by donors or by law) are included in the net assets without donor restrictions.

Net Assets With Donor Restrictions: are those 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 event specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no net assets with donor restrictions that are perpetual in nature as of June 30, 2019.

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, 2019

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.

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.

Items measured at fair value on a recurring basis: The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2019.

Investments:

Cash and Money market accounts – Valued at the reported brokerage amounts.

Equity securities – Valued at the quoted market prices by the custodian as of the close of business at year ended June 30, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and money				
Market accounts	\$ 1,123,349	\$ -	\$ -	\$ 1,123,349
Equity securities	<u>2,080</u>	<u>-</u>	<u>-</u>	<u>\$ 2,080</u>
	<u>\$ 1,125,429</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,125,429</u>

For the Year Ended June 30, 2019

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

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 similar amounts that are held and remain classified within the investment portfolio.

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. 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, 2019, 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, 2019, Seagull Services determined that an allowance for uncollectible accounts was not needed.

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.

For the Year Ended June 30, 2019

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

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.

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 support without donor restriction 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, net assets with donor restriction are reclassified to net assets without donor restriction 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 support without donor.

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, 2019.

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 increases in net assets with donor restriction. 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, 2019

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

Special Events

Seagull Services realized \$51,673 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.

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, 2019 were \$560, and are included in Marketing and Outreach in the Statement of Functional Expenses.

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, 2019, 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, 2019

1. Business and Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU No. 2014-09 is effective for annual reporting periods in fiscal years that begin after December 15, 2019, and therefore will take effect for Seagull Services' fiscal year ending June 30, 2021. Management is currently evaluating the standard and does not anticipate it will have a material impact on Seagull Services' financial statements.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, which does not take effect until Seagull Services' fiscal year ending June 30, 2023, 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.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which changes the current guidance for net asset classification, Board designations, investment return, underwater endowment funds, expenses, liquidity and presentation of operating cash. Seagull Services has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively.

The new standards change the following aspects of Seagull Services' financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily restricted net asset class has been renamed net assets with donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 2).

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, 2018, from which the summarized information was derived. Certain 2018 amounts may have been reclassified to conform to 2019 classifications. Such reclassifications would have had no effect on the change in net assets as previously reported.

For the Year Ended June 30, 2019

2. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year, that is, without donor or other restrictions limiting their use from the date of the Statement of Financial Position comprise the following:

Cash and cash equivalents	\$ 147,862
Investments	1,123,387
Grants, contracts, and allocations receivable, net	209,933
Current portion of note receivable	<u>6,701</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 1,489,925</u>

In addition to financial assets currently available to meet general expenditures over the next 12 months, Seagull Services anticipates collecting sufficient support and revenue from its contracts with various state and local agencies and from its historically consistent stream of contributions to cover general expenditures not covered by donor-restricted resources.

2. Grants, Contracts, and Allocations Receivable

Management believes that all grants, contracts, and allocations receivable as of June 30, 2019 are fully collectible. Accordingly, there is no reserve for bad debt.

Grants, contracts, and allocations receivable as of June 30, 2019, consisted of the following:

	<u>Amount</u>	<u>Allowance</u>	<u>Net</u>
Grants	\$ 142,328	\$ -	\$ 142,328
Contracts	27,605	-	27,605
Allocations	40,000	-	40,000
	<u>\$ 209,933</u>	<u>\$ -</u>	<u>\$ 209,933</u>

3. Prepaid Expenses

Prepaid expenses as of June 30, 2019, consisted of the following:

Prepaid insurance	\$ 53,658
Other prepaid expenses	<u>14,963</u>
	<u>\$ 68,621</u>

4. Other Assets

Other assets as of June 30, 2019 consisted of the following:

Unemployment reserve	<u>\$ 14,619</u>
----------------------	------------------

For the Year Ended June 30, 2019

5. Note Receivable

During the current year, Seagull Services received a promissory note receivable in connection with 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, 2019:

Receivable in less than one year	\$ 6,701
Receivable in one to five years: June 30, 2021	<u>2,135</u>
Total note receivable	<u>\$ 8,836</u>

6. Property and Equipment

Property and equipment as of June 30, 2019, consisted of the following:

Land	\$ 150,000
Buildings and improvements	2,583,300
Equipment	634,800
Vehicles	<u>828,423</u>
	4,206,523
Less accumulated depreciation	<u>2,302,957</u>
	<u>\$ 1,903,566</u>

7. Accrued Expenses

Accrued expenses as of June 30, 2019, consisted of the following:

Accrued insurance	\$ 28,034
Accrued salaries	27,988
Accrued unemployment tax	29,465
Other accrued expenses	<u>1,488</u>
	<u>\$ 86,975</u>

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, 2019). 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.

For the Year Ended June 30, 2019

9. Mortgage 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.

\$ 870,480

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.

196,249

Pursuant to the agreement for the preceding mortgage and note payable, Seagull Services received a waiver for the requirement to provide audit financial statements with 180 days of its fiscal year-end.

Total mortgage and note payable	1,066,729
Less unamortized debt issuance cost	<u>22,344</u>
Net mortgage and note payable	1,044,385
Less current portion	<u>53,319</u>
Total non-current portion	<u>\$ 991,066</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>
2020	\$ 57,161	\$ (3,841)	\$ 53,320
2021	60,368	(3,841)	56,527
2022	63,758	(3,841)	59,917
2023	67,340	(3,841)	63,499
2024	71,126	(3,841)	67,285
Thereafter	<u>746,976</u>	<u>(3,139)</u>	<u>743,837</u>
	<u>\$ 1,066,729</u>	<u>\$ (22,344)</u>	<u>\$ 1,044,385</u>

For the Year Ended June 30, 2019

10. Net Assets with Donor Restriction

Net assets with donor restriction as of June 30, 2019, were available for the following purposes or periods:

Subject to expenditures for a specific purpose:

Capital Projects	\$ 69,200
Season to Share	<u>17,403</u>
	86,603

Subject to time and expenditures for a specific purpose:

Client and student services	<u>40,000</u>
	<u>\$ 126,603</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, 2019.

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, 2019, Seagull Services cash balances were fully covered by FDIC insured limits. Additionally, Seagull Services has not experienced any losses of such funds and management believes the organization is not exposed to significant risk on cash.

Seagull Services receives significant funding from the Agency for Persons with Disabilities, Palm Beach County School Board, and other public sources. Consequently, the Organization 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 accounts for approximately 49% of total revenues. As of June 30, 2019, Seagull Services' grants and contracts receivable from such agencies amounted to \$40,000.

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.

For the Year Ended June 30, 2019

13. Subsequent Events

Management has evaluated subsequent events through October 27, 2020, the date on which the financial statements were available to be issued, and determined the following additional events to disclose were required to be presented in these financial statements.

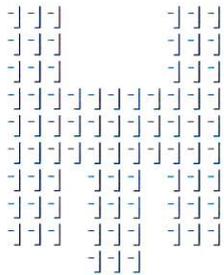
In recent months, the COVID-19 outbreak in the United States, together with related government orders, has resulted in the temporary contract of activities and operating hours for many individuals and organizations, including those that interact with and support Seagull Services. As a response, Seagull Services has submitted a loan application under the Paycheck Protection Program ("PPP") with its bank as part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") for \$338,000. That application which was approved and signed on April 14, 2020, and funded on May 7, 2020.

The PPP enables qualifying organizations to borrow up to 2.5 times their average monthly payroll under the basic terms of 1% interest, with a five-year term, and all payments deferred for 10 months following the end of the covered period. PPP also includes a forgiveness provision for some or all of the loan, so long as the organization uses the funds for qualified costs (60% payroll) over a 24-week covered period beginning on the date the loan is funded. While it remains uncertain how much, if any, of the PPP loan will be forgiven, management intends to use the funds for payroll and other allowable costs as designed.

Seagull Services is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. Given the uncertainty of this situation, an estimate of the financial impact to Seagull Services cannot be reasonably estimated at this time.

On August 26, 2020, Seagull Services sold the upstairs vacant floor of a two-floor office condominium owned on Military Trail, West Palm Beach for \$325,000. The remaining floor at this location continues to be used for operating the SAIL program. In connection with this sale, Seagull was able to fully payoff its mortgage loan of \$144,696 and now holds the subject property free and clear from bank lien. The remaining proceeds from the sale were invested and are included in net assets without donor restriction.

Management has evaluated all additional subsequent events, other than those mentioned above through October 27, 2020, the date on which the financial statements were available to be issued, and determined that there were no further disclosures required to be presented 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, 2019, 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 October 27, 2020.

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 and therefore material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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
October 27, 2020

For the Year Ended June 30, 2019

FINDINGS AND RESPONSES

Seagull Service's responses to the findings identified in our audit are described in the following schedule of findings and responses. Seagull Service's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The following matters are considered to be material weaknesses:

2019-01 – Account Balance Reconciliation

The current year engagement required a number of adjusting entries to correct reported balances that had not been fully reconciled or agreed to supporting information.

In order to make the financial reports generated by the accounting system as meaningful as possible, the Organization should reconcile its general ledger accounts to supporting documentation on a monthly basis. The benefits of monthly reconciliations include more accurate and timely financial information for decision making purposes, and more efficient future reconciliations that correctly identify and resolve accounting errors.

We recommend that the Organization implement a monthly closing routine that addresses each of the major account areas, to include: accounts, grants, and pledges receivable, investments, fixed assets, accounts payable and accrued liabilities, loans or notes payable, and allocation of net assets.

Management's response:

Management agrees with this recommendation and had implemented the following steps which will create an efficient month-end close process and reduce the amount of year-end adjusting journal entries:

- The Organization has created a month-end Close Checklist for accounts, grants, and pledges receivable, investments, fixed assets, accounts payable, accrued liabilities, loans, and allocation of net assets.
- The Organization will prepare monthly reconciliations by the 15th business day of the following month, and have those reconciliations reviewed by the Comptroller and the Chief Executive Officer.
- The Board Treasurer will meet with the Comptroller every month prior to the Board meetings to discuss and review monthly financial statements.

For the Year Ended June 30, 2019

2019-02 – Timely Audit Preparedness

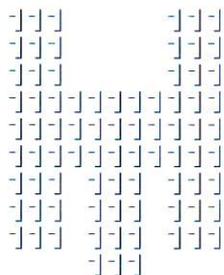
The current year's audit was delayed in its production and completion. We acknowledge a change in accounting personnel at an important time for launching the 2019 audit process. We also understand the subsequent time needed to bring aboard a new hire and allow that person to become familiar with the Organization's systems and procedures. We have worked with management to foster a better understanding of the audit requirements and to develop the necessary schedules, workpapers and supporting information.

Management's response:

Management agrees with this recommendation. Seagull Services plans to work with NonProfits First and MindEdge Learning to obtain financial training. Specifically, NonProfits First has a partnership with MindEdge Learning, which provides online higher education and professional courses, including the following:

- Financial management training,
- Bookkeeping assistance,
- Month-end close process,
- Preparation of bank reconciliation,
- Preparation of Monthly Financial Reports, and
- Financial Health Analysis

In addition, Seagull Services' audit committee will be actively involved at the beginning of the next audit cycle to ensure that a timeline is established, and deadlines are met.



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

In planning and performing our audit of the financial statements of Seagull Industries for the Disabled, Inc. ("Seagull Services") as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Seagull Services' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness Seagull Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Seagull Services' internal control.

Our Responsibilities

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses. In addition, we also address the prior year comment to provide you with an update on that recommendation.

Definitions Related to Internal Control Deficiencies

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 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.

CURRENT YEAR COMMENTS

We considered the following deficiencies in Seagull Service’s internal control to be material weaknesses:

2019-01 – Account Balance Reconciliation

The current year engagement required a number of adjusting entries to correct reported balances that had not been fully reconciled or agreed to supporting information. A summary of the number and character of entries for 2017-2019 is shown in the table below.

<u>Year</u>	<u>Adjusting Journal Entries</u>	<u>Reclass Journal Entries</u>	<u>Passed Adjusting Journal Entries</u>	<u>Total</u>
2019	20	1	0	21
2018	19	2	0	21
2017	15	1	1	17

In order to make the financial reports generated by the accounting system as meaningful as possible, the Organization should reconcile its general ledger accounts to supporting documentation on a monthly basis. The benefits of monthly reconciliations include more accurate and timely financial information for decision making purposes, and more efficient future reconciliations that correctly identify and resolve accounting errors.

We recommend that the Organization implement a monthly closing routine that addresses each of the major account areas, to include: accounts, grants, and pledges receivable, investments, fixed assets, accounts payable and accrued liabilities, loans or notes payable, and allocation of net assets.

Management’s response:

Management agrees with this recommendation and had implemented the following steps which will create an efficient month-end close process and reduce the amount of year-end adjusting journal entries:

- The Organization has created a month-end Close Checklist for accounts, grants, and pledges receivable, investments, fixed assets, accounts payable, accrued liabilities, loans, and allocation of net assets.
- The Organization will prepare monthly reconciliations by the 15th business day of the following month, and have those reconciliations reviewed by the Comptroller and the Chief Executive Officer.
- The Board Treasurer will meet with the Comptroller every month prior to the Board meetings to discuss and review monthly financial statements.

2019-02 – Timely Audit Preparedness

The current year's audit was delayed in its production and completion. We acknowledge a change in accounting personnel at an important time for launching the 2019 audit process. We also understand the subsequent time needed to bring aboard a new hire and allow that person to become familiar with the Organization's systems and procedures. We have worked with management to foster a better understanding of the audit requirements and to develop the necessary schedules, workpapers and supporting information.

In that regard, we recommend comprehensive training in audit preparedness and in the unique aspects of not-for-profit GAAP (U.S. generally accepted accounting principles), both of which will enable the accounting department to more readily determine the appropriate accounting and compliance standards applicable to the Organization's audit engagement and financial accounting and reporting.

Management's response:

Management agrees with this recommendation. Seagull Services plans to work with NonProfits First and MindEdge Learning to obtain financial training. Specifically, NonProfits First has a partnership with MindEdge Learning, which provides online higher education and professional courses, including the following:

- Financial management training,
- Bookkeeping assistance,
- Month-end close process,
- Preparation of bank reconciliation,
- Preparation of Monthly Financial Reports, and
- Financial Health Analysis

In addition, Seagull Services' audit committee will be actively involved at the beginning of the next audit cycle to ensure that a timeline is established, and deadlines are met.

PRIOR YEAR COMMENTS

2018-01 – Fixed assets

During our audit work related to fixed assets we noted multiple additions and disposals (with related gain or loss) recorded during the fiscal period. We recommend that management ensure additions, disposals, and related gain or loss, are reconciled from the fixed asset schedule to the trial balance to ensure all transactions are recorded accurately.

Status: Refer to 2019-02 regarding trial balance accounts – supporting schedules

Management and Board of Directors of
Seagull Industries for the Disabled, Inc.
October 27, 2020
Page 4

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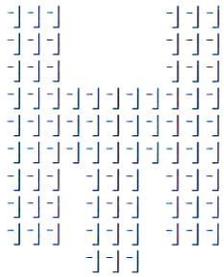
We have previously discussed our observations and recommendations with management and would be pleased to discuss them in further detail at your convenience, to perform any additional study of the matters, or to assist you in implementing the recommendations to the extent our independence is not impaired.

Management's written responses to the deficiencies identified herein have not been subjected to our audit procedures, and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Directors, and others within Seagull Services and any governmental authorities with whom you need to share this information. It is not intended for use by anyone other than these specified parties.

Holyfield & Thomas, LLC

West Palm Beach, FL
October 27, 2020



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To the Audit Committee and Management of
Seagull Industries for the Disabled, Inc.
Riviera Beach, Florida

We have audited the financial statements of Seagull Industries for the Disabled, Inc. ("Seagull Services") for the year ended June 30, 2019, and have issued our report dated October 27, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 11, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Seagull Services are described in Note 1 to the financial statements. As described in Note 1, Seagull Services adopted the accounting policies related to the presentation of financial statements in accordance with FASB Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958), in 2019. Accordingly, the accounting change has been retrospectively applied to the financial statements as of and for the year ended June 30, 2018, as if the policy had always been used.

We noted no transactions entered into by Seagull Services during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Estimates significant to the financial statements include the useful life of property and equipment; net realizable value of grants, contracts, and allocations receivable; and the ultimate settlement value of accounts payable and accrued expenses. We evaluated the methodology used by management in their valuation of these instruments in determining the reasonableness of the amounts reported in the financial statement presentation.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the classification of net assets using the guidance of ASC 958-205, *Not-for-Profit Entities, Presentation of Financial Statements* is presented in Note 10 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

Similar to other organizations, Seagull Services experienced difficulties during the past recent months due to disruptions caused by COVID-19. In addition, Seagull Services experienced a change in management with the departure of the former Director of Finance during the audit fieldwork. This change resulted in delays in preparing and submitting supporting schedules necessary to complete audit fieldwork.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected such misstatements, which are listed in the attached schedule of adjusting journal entries.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We will request certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Seagull Services' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Seagull Services' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Audit Committee and management of Seagull Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Holyfield + Thomas, LLC

West Palm Beach, Florida

Client: **05808.00 - Seagull Industries for the Disabled, Inc.**
 Engagement: **05808.00 - 2019 Audit - Seagull**
 Period Ending: **6/30/2019**
 Trial Balance: **.TB-Seag - Trial Balance- Seagull**
 Workpaper: **AJE - Journal Entries Report- Seagull**
 Account Description

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
To record journal entry provided by client during fieldwork - Town of Palm Beach United Way				
1460	Grant Receivable		20,000.00	
4110	Town of Palm Beach United Way		50,000.00	
1460	Grant Receivable			50,000.00
4110	Town of Palm Beach United Way			20,000.00
Total			70,000.00	70,000.00
Adjusting Journal Entries JE # 2				
To record reclass for revenue collected by Seagull to SAIL				
4162	Special Events Sponsor		25,000.00	
7410	Contribution to SAIL			25,000.00
Total			25,000.00	25,000.00
Adjusting Journal Entries JE # 3				
To adjust ending balance of loan balance for Comerica Mortgage account to actual per June 2019 statement				
6210	Interest Expense		1,970.00	
2400	Comerica			1,970.00
Total			1,970.00	1,970.00
Adjusting Journal Entries JE # 4				
To adjust ending balance of loan balance for Comerica Loan account to actual per June 2019 statement				
2421	Comerica Loan		3,346.00	
6210	Interest Expense			3,346.00
Total			3,346.00	3,346.00
Adjusting Journal Entries JE # 5				
PBC AJE - to adjust accounts receivable, allowance for doubtful accounts and bad debt expense				
1315	Allowance for Doubtful Accounts		12,179.00	
4130	Private Pay Clients		385.00	
6150	Bad Debts		14,818.00	
6420	Cable TV		680.00	
1300	Accounts Receivable			13,224.00
1315	Allowance for Doubtful Accounts			14,818.00
Total			28,042.00	28,042.00
Adjusting Journal Entries JE # 6				
PBC AJE - to post adjustment to the ending balance to agree to statement balance as of June 30, 2019				
1648	Unemployment Reserve		457.00	
1648	Unemployment Reserve		835.00	
2305	Unemployment Tax Accrual		527.00	
1648	Unemployment Reserve			527.00
6240	Membership & Dues			835.00
7130	Interest Income			457.00
Total			1,819.00	1,819.00
Adjusting Journal Entries JE # 7				
AJE to adjust client entry to actual per depreciation schedule and settlement statement - Seagull Place				
1045	Fidelity Investments		1,204,431.00	
1210	PNC Bank		100,000.00	
1680	Accumulated Depreciation		617,985.00	
2660	Mortgage Payable - PB County		105,520.00	
2551	Accrued Interest - PB County		39,160.00	
6260	Miscellaneous Expenses		26.00	
7200	Gain (Loss) Sale Asset		370,288.00	
7200	Gain (Loss) Sale Asset		60,880.00	
1510	Land			200,000.00
1620	Building & Improvements			725,224.00
1640	Equipment			63,059.00
7200	Gain (Loss) Sale Asset			1,304,431.00
7200	Gain (Loss) Sale Asset			225,576.00
Total			2,518,290.00	2,518,290.00

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Adjusting Journal Entries JE # 8				
AJE to reverse client entry posted during fiscal period to record gain loss on sale of Saagull Place				
1520	Building & Improvements	H-05.2	988,283.00	
7200	Gain (Loss) Sale Asset		1,151,479.00	
1045	Fidelity Investments			1,204,431.00
1210	PNC Bank			100,000.00
1560	Accumulated Depreciation			604,373.00
2560	Mortgage Payable - PB County			105,520.00
2561	Accrued Interest - PB County			39,160.00
6230	Licenses & Taxes			14,843.00
7200	Gain (Loss) Sale Asset			2,445.00
7200	Gain (Loss) Sale Asset			7,800.00
7200	Gain (Loss) Sale Asset			61,200.00
Total			2,139,762.00	2,139,762.00
Adjusting Journal Entries JE # 9				
To adjust accumulated amortization related to loan closing costs to actual per 6-30-2019 FA depreciation and amortization expense				
1798	Accum. Amort. Loan Close Costs	G-03	1,087.00	
7350	Amortization expense			1,087.00
Total			1,087.00	1,087.00
Adjusting Journal Entries JE # 10				
To adjust opening temporarily restricted net assets - client posted to unrestricted in prior year - opening 2019 TRNA same as 6-30-2017 ending TRNA				
3110	Temporarily restrict net asset	U-0	194,531.00	
3010	Unrestricted Fund Balance			194,531.00
Total			194,531.00	194,531.00
Adjusting Journal Entries JE # 11				
To record adjustment due to amendment for grants receivable (FDOT) to agree to ending grants receivable schedule provided by client as of 6-30-2019				
7100	Capital Revenues	D-04	27,421.00	
1450	Grant Receivable			27,421.00
Total			27,421.00	27,421.00
Adjusting Journal Entries JE # 12				
To adjust temporarily restricted net assets - per activity during current year per client schedule as of 6-30-2019				
3010	Unrestricted Fund Balance	U-0	45,779.00	
3110	Temporarily restrict net asset		91,424.00	
3010	Unrestricted Fund Balance			91,424.00
3110	Temporarily restrict net asset			45,779.00
Total			137,203.00	137,203.00
Adjusting Journal Entries JE # 13				
To adjust allowance for accounts receivable and write off uncollectible receivable.				
1315	Allowance for Doubtful Accounts	D-03	7,500.00	
1300	Accounts Receivable			59.00
6150	Bad Debts			7,441.00
Total			7,500.00	7,500.00
Adjusting Journal Entries JE # 14				
To adjust accounts payable to actual per detail and remove payable related to employee hiring ("Indeed") as of June 30, 2019.				
2010	Accounts Payable	N-02	5,000.00	
6250	Miscellaneous Expenses		4,450.00	
2010	Accounts Payable			4,450.00
6120	Miscellaneous Employee Expense			5,000.00
Total			9,450.00	9,450.00
Adjusting Journal Entries JE # 15				
To adjust accrued payroll to actual per subsequent payroll register based on calculation of number of days to accrue for fiscal period ending June 30, 2019.				
2130	Accrued Payroll & Taxes	N-01	6,600.00	
6010	Staff Salaries			6,600.00
Total			6,600.00	6,600.00
Adjusting Journal Entries JE # 16				
To reclass Intuit Software expenses under capitalization policy threshold.				
6292	Program & Management Software	H-01	90.00	
1540	Equipment			90.00
Total			90.00	90.00

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Adjusting Journal Entries JE # 17				
To record disposal of assets per depreciation schedule provided by client.				
1680	Accumulated Depreciation	H-07	98,917.00	
7200	Gain (Loss) Sale Asset		545.00	
1520	Building & Improvements			31,106.00
1530	Vehicles			19,719.00
1540	Equipment			48,637.00
Total			<u>99,462.00</u>	<u>99,462.00</u>
Adjusting Journal Entries JE # 18				
To adjust current year depreciation expense to actual per FA software depreciation expense for fiscal period.				
7300	Depreciation Expense	H-01	9,409.00	
1580	Accumulated Depreciation			9,409.00
Total			<u>9,409.00</u>	<u>9,409.00</u>
Adjusting Journal Entries JE # 20				
To adjust suspense account at fiscal year end June 30, 2019				
1420	Suspense	D-0	77.00	
6250	Miscellaneous Expenses			77.00
Total			<u>77.00</u>	<u>77.00</u>
Adjusting Journal Entries JE # 21				
To record adjustment for activity during fiscal period and agree ending account balance to statement as of June 30, 2019				
1240	Merrill Lynch Investor Account	B-01	2,042.00	
7415	Other Gains or Losses			2,042.00
Total			<u>2,042.00</u>	<u>2,042.00</u>
Adjusting Journal Entries JE # 22				
To record adjustment for prepaid insurance and related insurance liability per financed insurance policy (Premium Finance Corp.) as of June 30, 2019				
1485	Unexpensed Insurance Premiums	G-01b	10,329.00	
2125	Accrued Insurance			10,329.00
Total			<u>10,329.00</u>	<u>10,329.00</u>
Adjusting Journal Entries JE # 23				
To adjust prepaid insurance as of June 30, 2019				
1485	Unexpensed Insurance Premiums	G-01	8,533.00	
6220	Insurance Expense			8,533.00
Total			<u>8,533.00</u>	<u>8,533.00</u>
Total Adjusting Journal Entries			<u>5,301,963.00</u>	<u>5,301,963.00</u>
Total All Journal Entries			<u>5,301,963.00</u>	<u>5,301,963.00</u>

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 Workpaper: RJE - Reclassifying Journal Entry Report - Seagull

Account	Description	W/P Ref	Debit	Credit
Reclassifying Journal Entries				
Reclassifying Journal Entries JE # 19				
To adjust accounts receivable and undeposited funds for payments received prior to fiscal year end that were not applied to accounts receivable as of June 30, 2019				
1499	Undeposited Funds		6,733.00	
1300	Accounts Receivable			6,733.00
Total			6,733.00	6,733.00
Total Reclassifying Journal Entries			6,733.00	6,733.00
Total All Journal Entries			6,733.00	6,733.00